

Have We Hit

Bottom?

Bay Area Economic Outlook

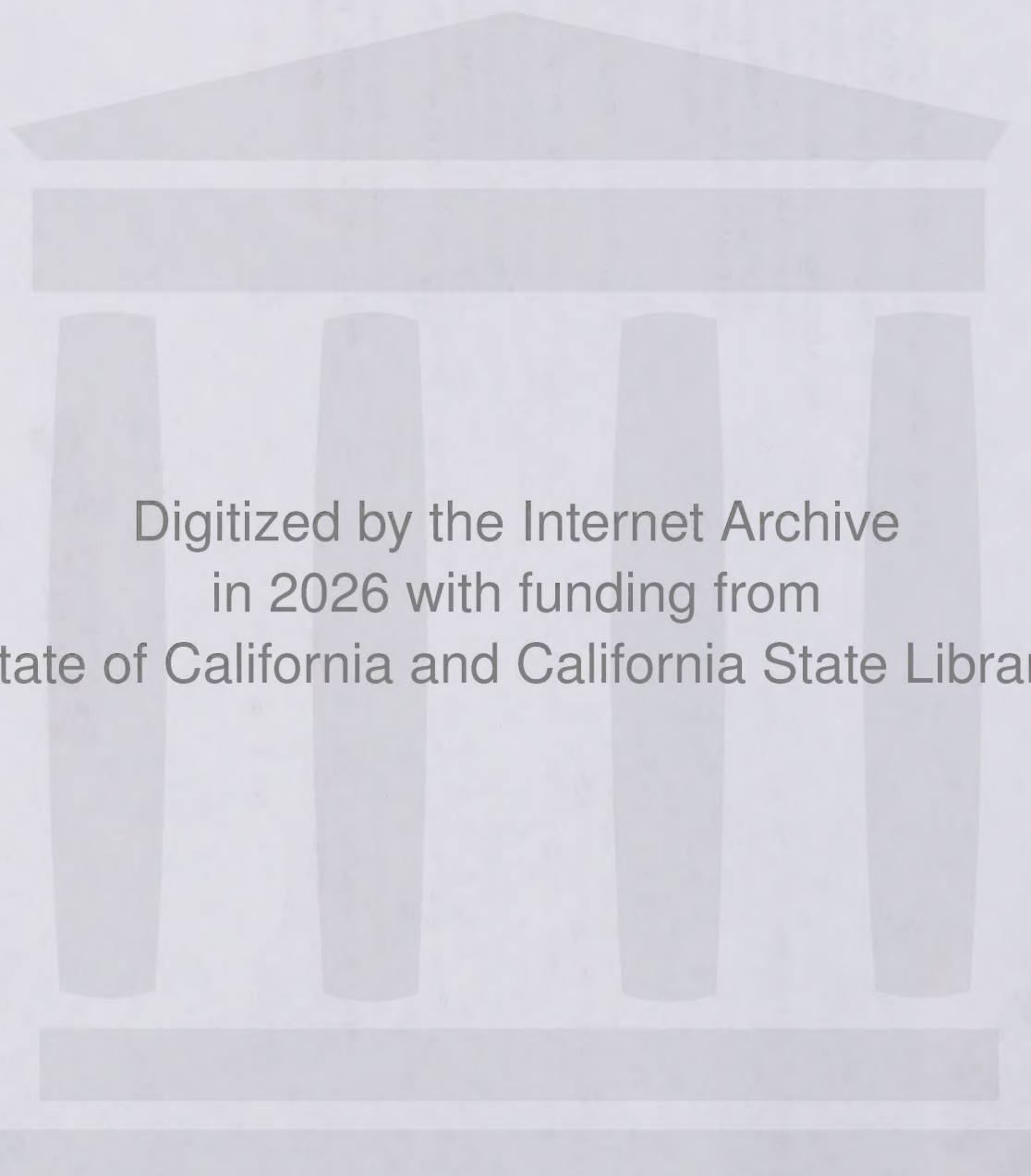
January 29, 2009

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Association of Bay Area Governments

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2009: A Tough Year for the California Economy

Howard Roth

Chief Economist

California Department of Finance



ABAG Bay Area Economic Outlook 2009-10



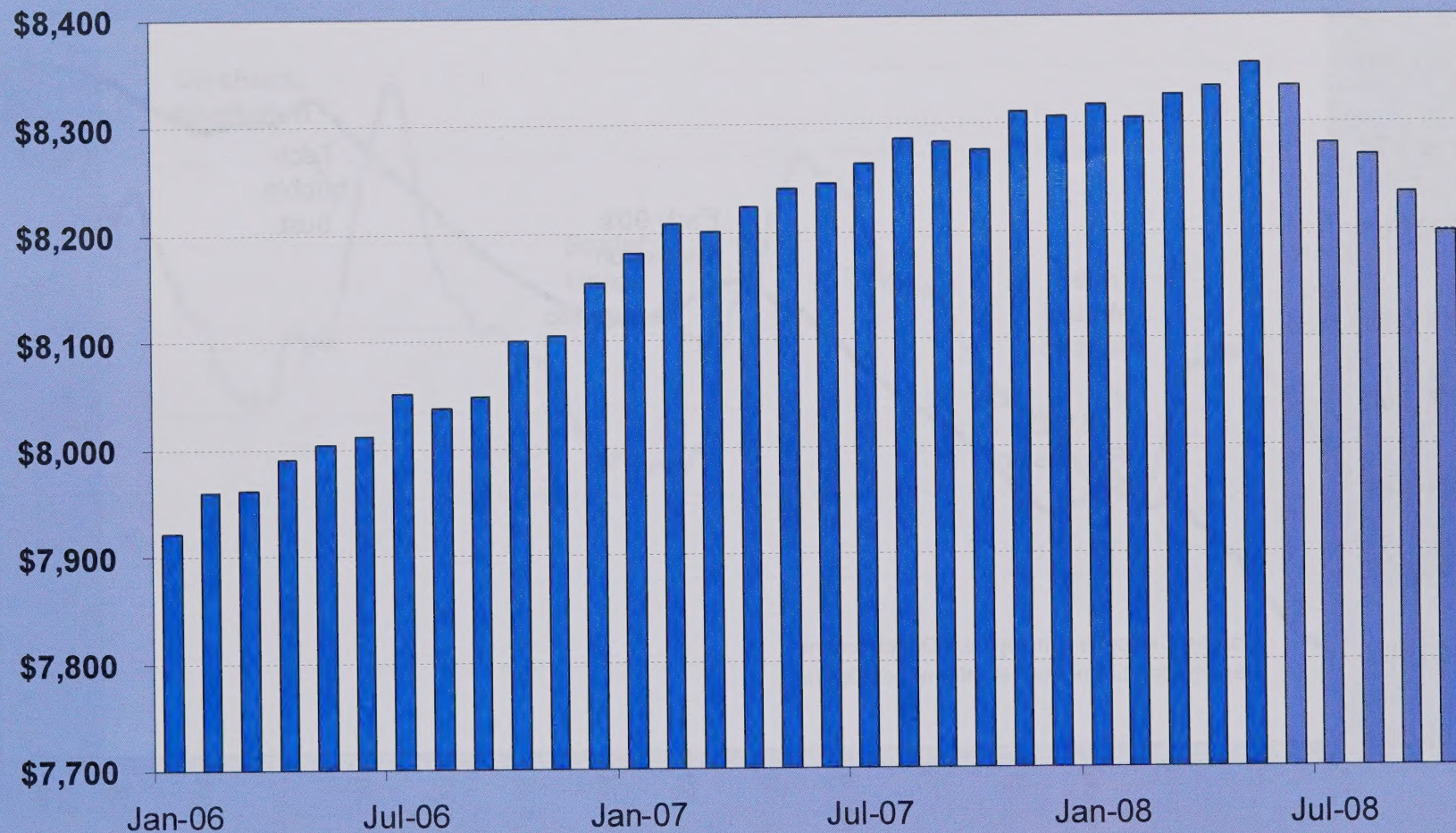
Have We Hit Bottom?

Overview

- The national and California recessions are worsening at an increasing rate
- The national and state housing sectors continue to subtract from overall economic growth
- Consumers have pulled back
- The credit crunch is a major impediment to economic recovery
- 2009 will be a weak year for both economies



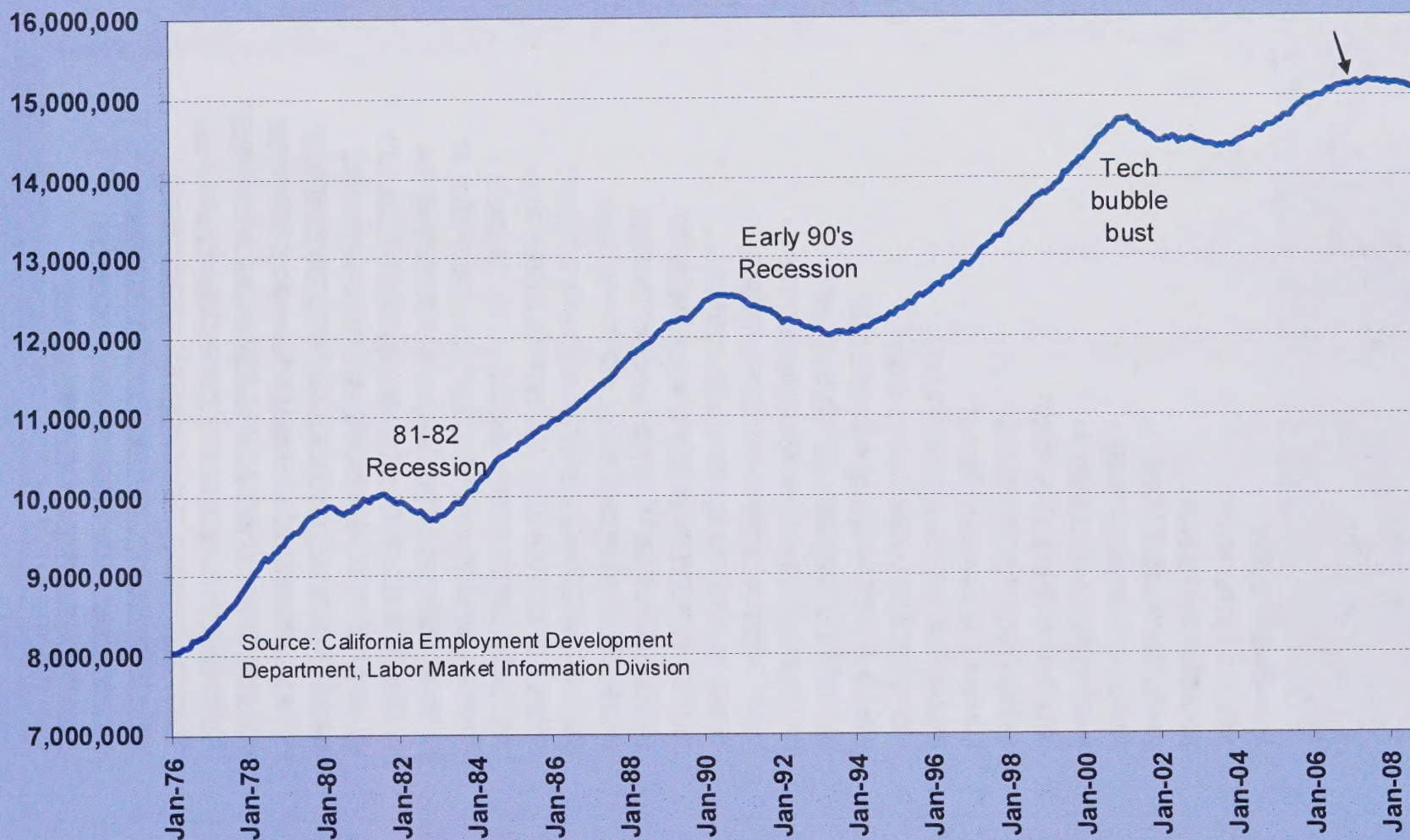
Consumption Expenditures (Billions of dollars) Adjusted for Inflation



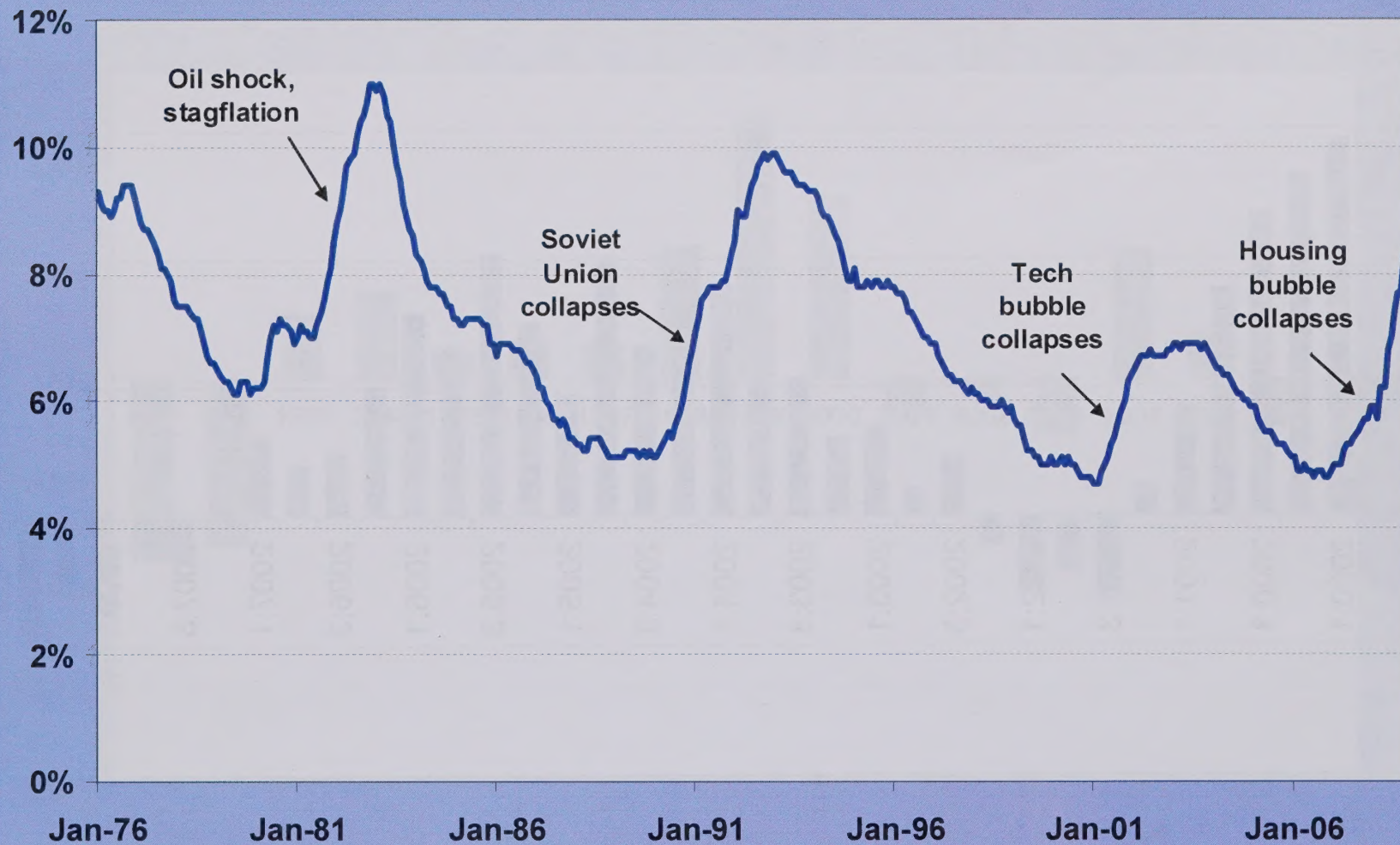
Source: U.S. Bureau of Economic Analysis



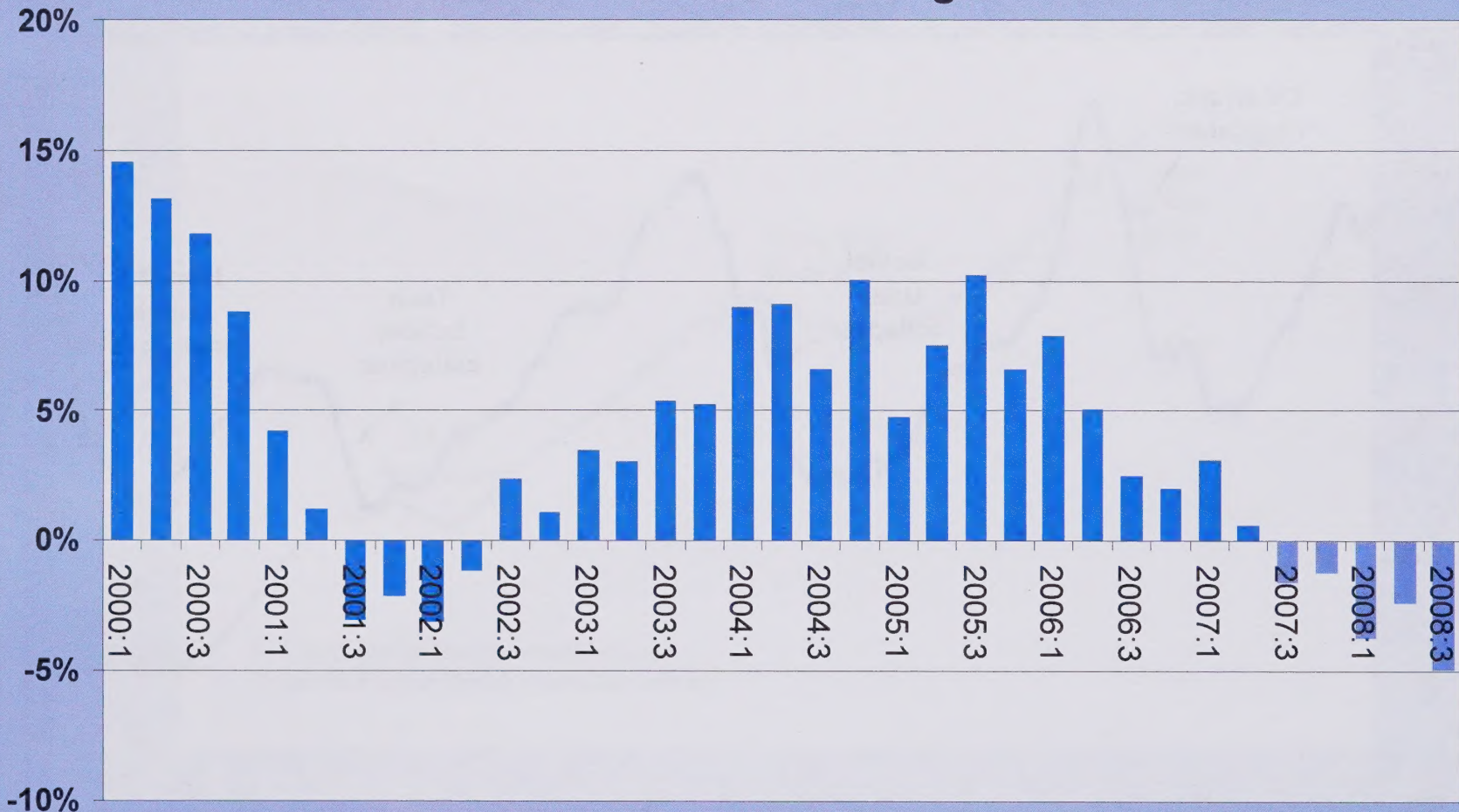
California Nonfarm Payroll Employment



California Unemployment Rate



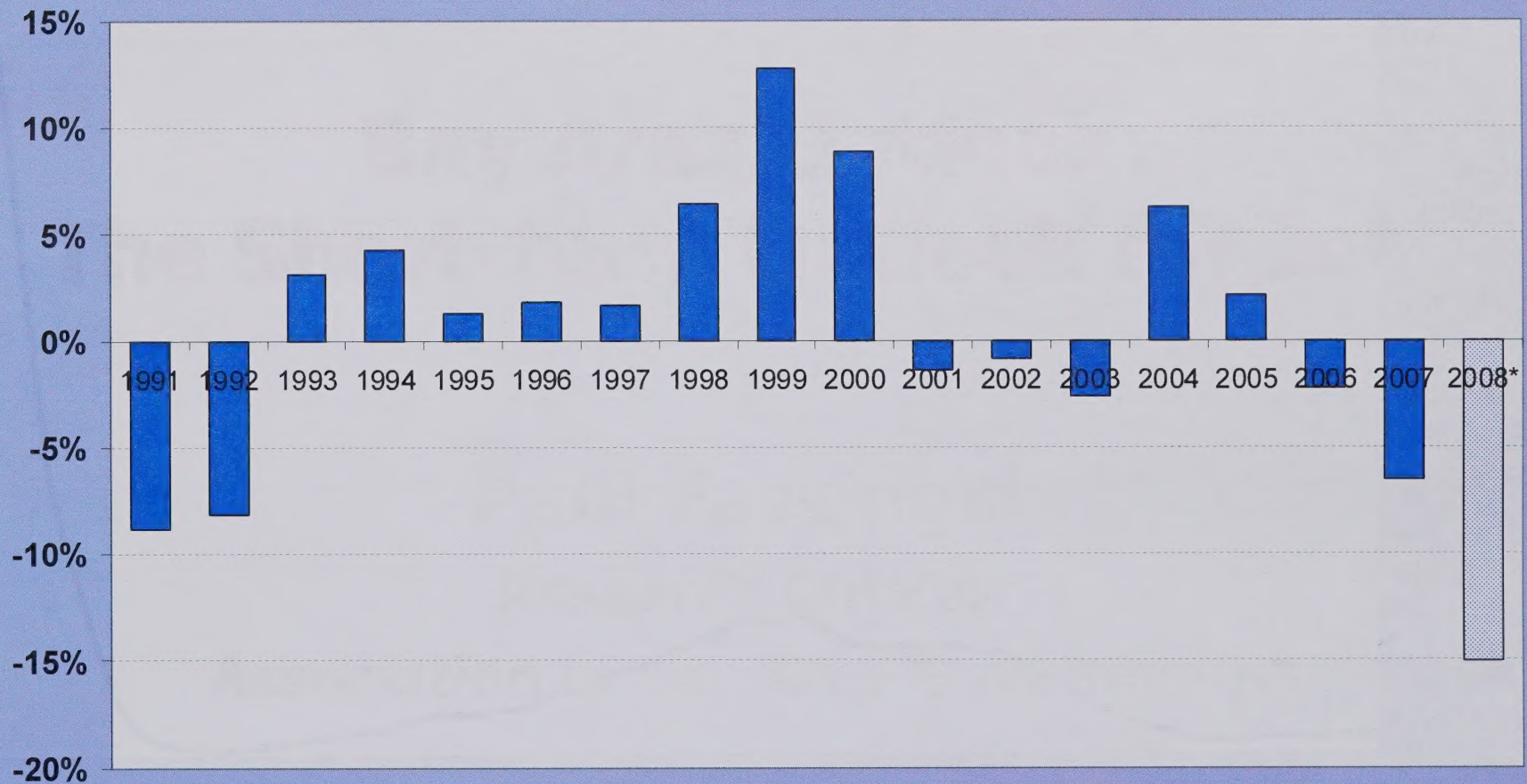
California Taxable Sales Year-over-Year change



Source: US Bureau of Economic Analysis



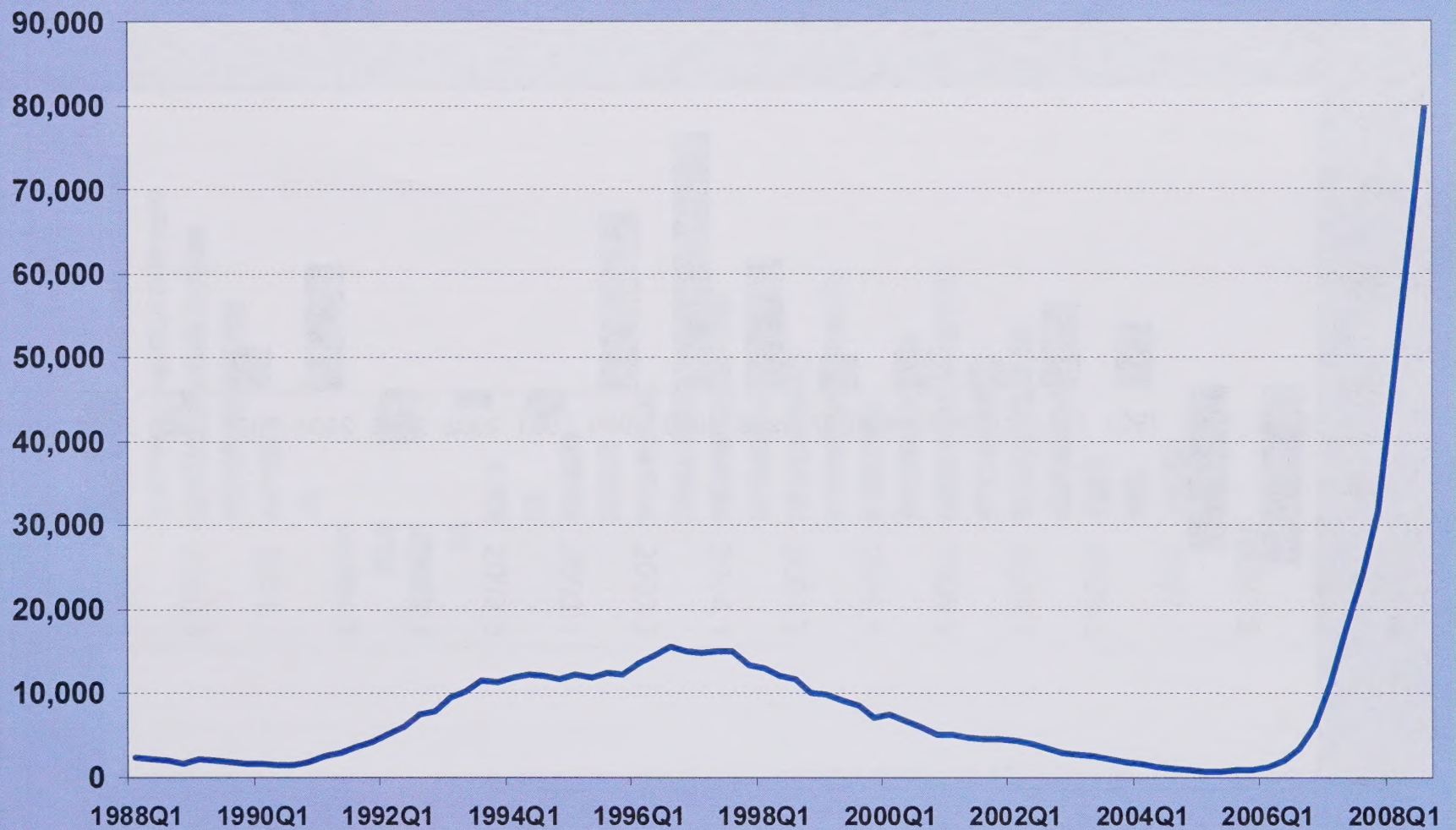
New Light Vehicle Registrations in California Annual Percent Change



* first 9 months of 2008; Source: California Department of Motor Vehicles



California Quarterly Home Foreclosures



Bay Area Outlook: The Short-term Outlook for Jobs

Paul Fassinger

Research Director

Association of Bay Area Governments



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Have We Hit Bottom?

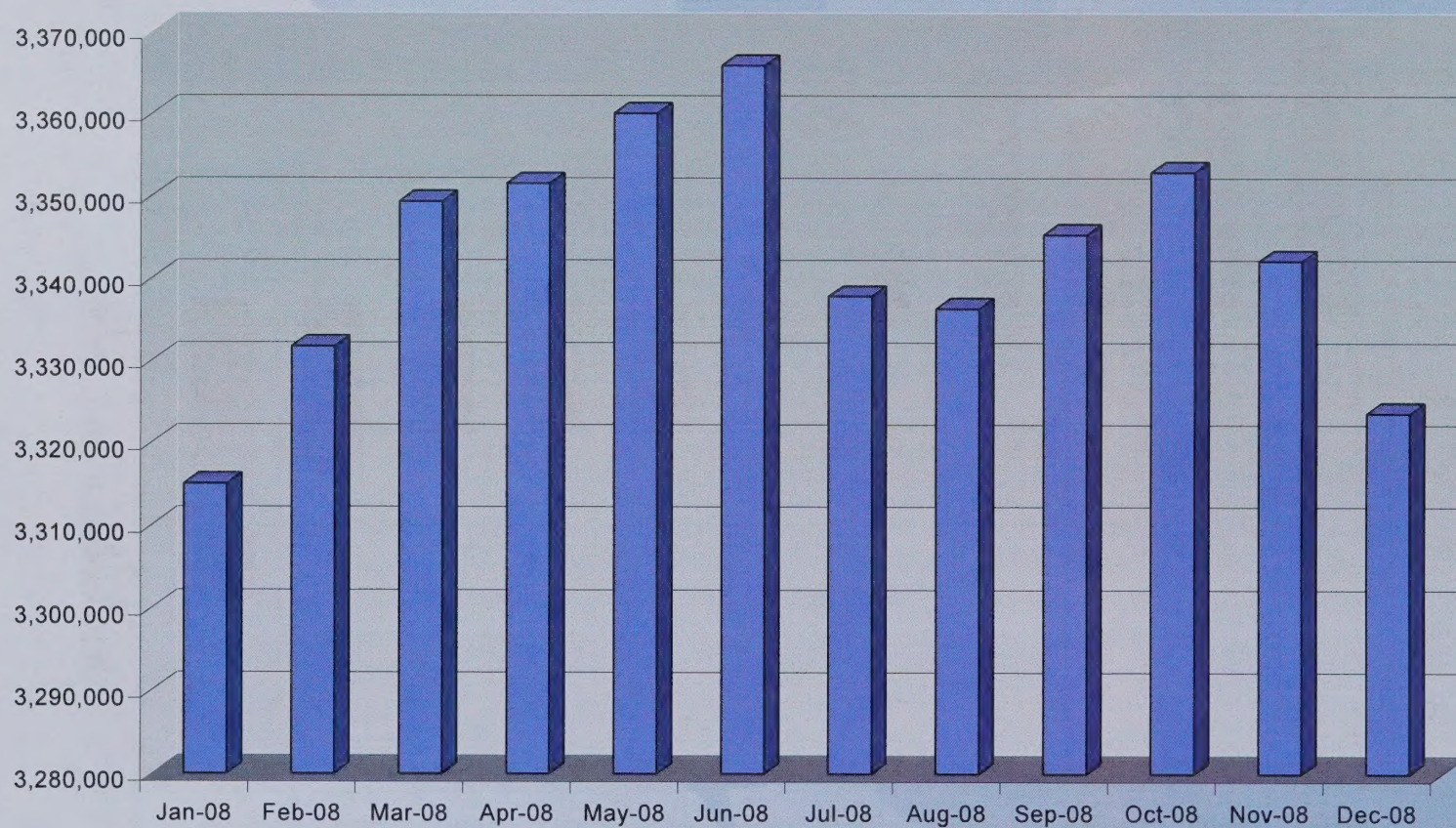
Short-term Expectations for the Bay Area

- Slowing economy throughout 2009 with recovery in 2010
- Incomes are expected to grow at about the rate of inflation
- Given monetary policy and tight energy markets inflation is expected to grow somewhat in coming years
- Bay Area should approximately mirror the rest of the nation



Bay Area Employment

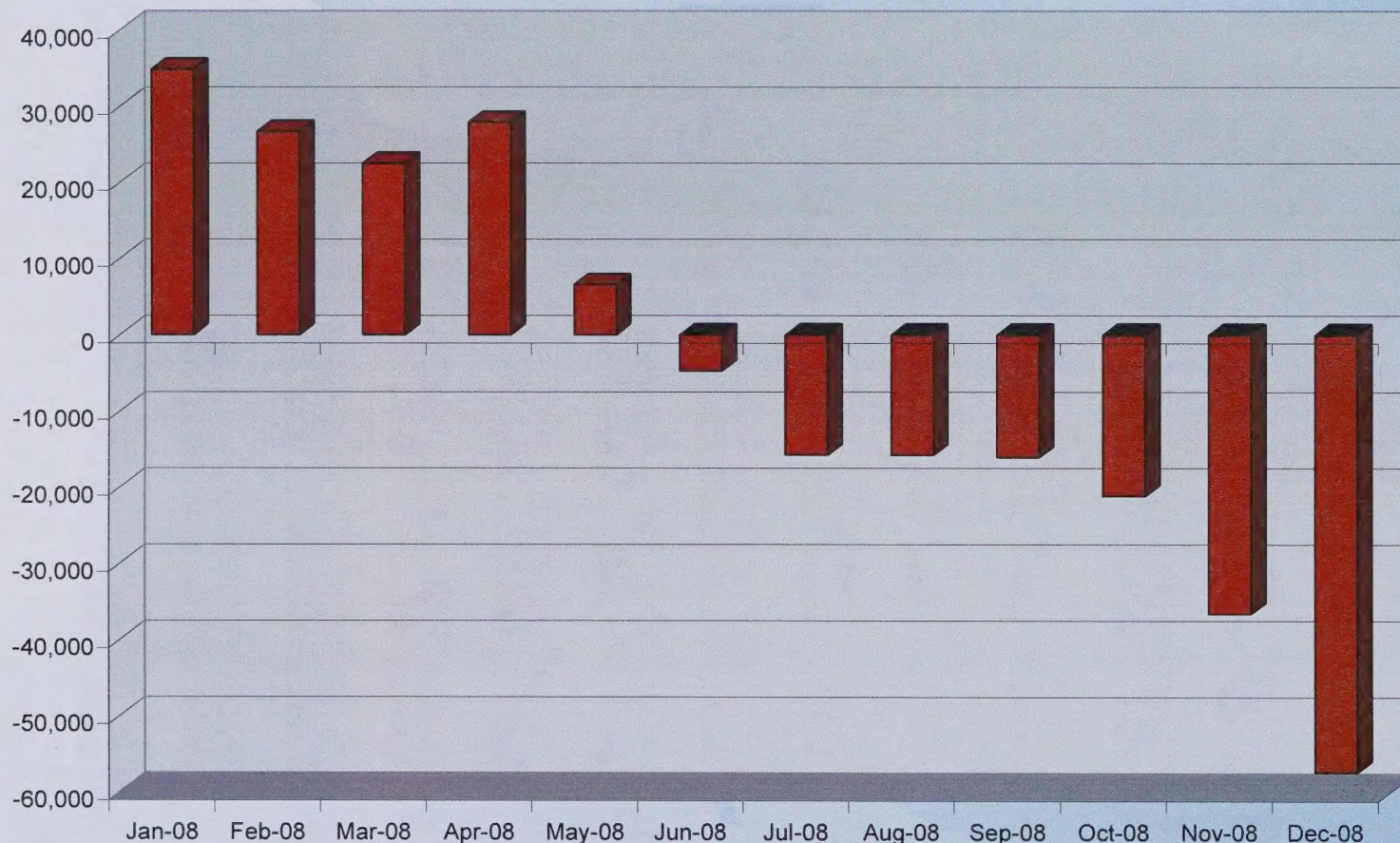
EDD Industry Employment



Source: California Employment Development Department

Year Over Year Employment Change

EDD Industry Employment



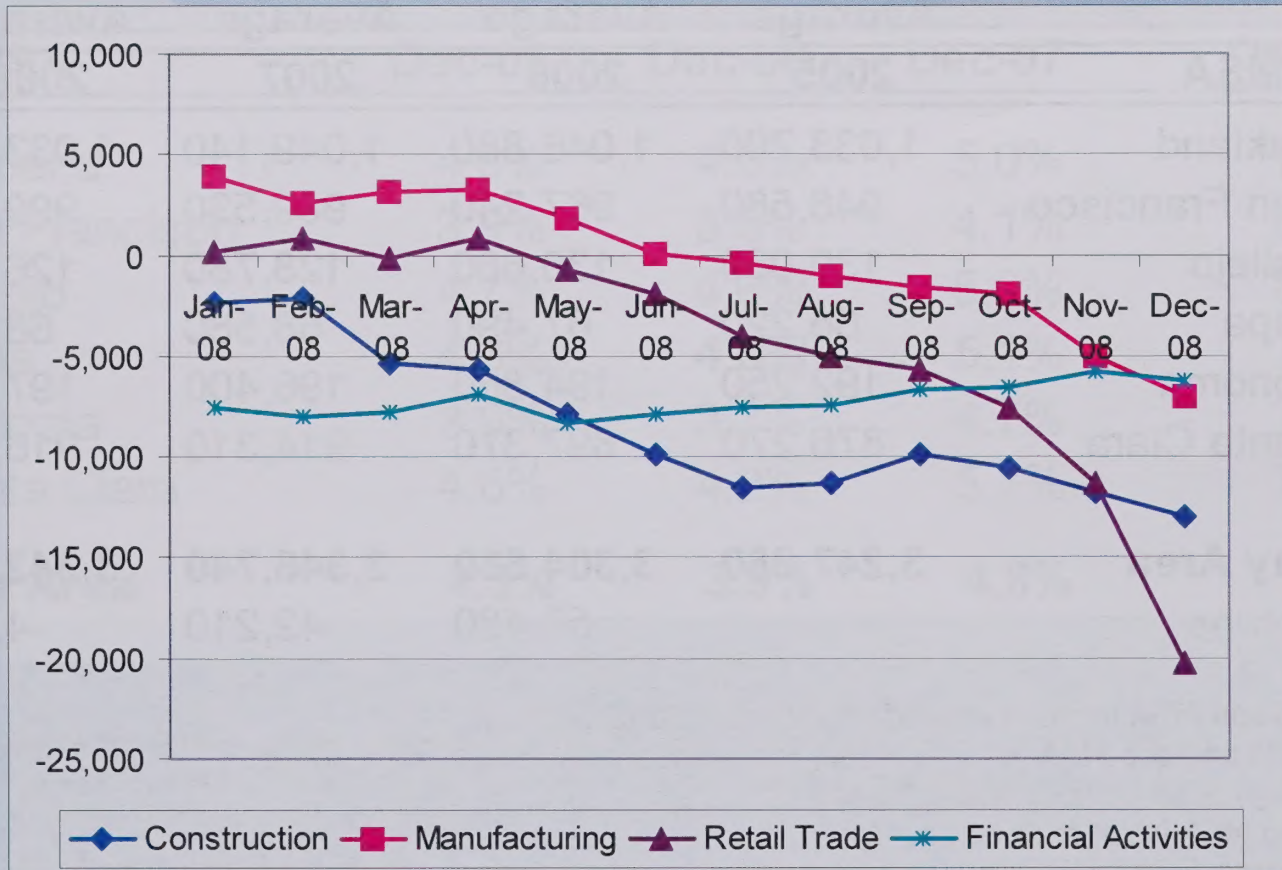
Source: California Employment Development Department

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Have We Hit Bottom?

Change in Finance and Real Estate

Year Over Year



Recent Job Growth History

Primary Metropolitan Statistical Areas

MSA	Average 2005	Average 2006	Average 2007	Average 2008
Oakland	1,033,700	1,046,880	1,049,140	1,033,800
San Francisco	948,580	967,240	989,530	999,630
Vallejo	130,030	130,680	128,780	126,890
Napa	66,220	67,490	68,580	68,680
Sonoma	192,250	194,860	196,400	197,090
Santa Clara	876,270	897,370	914,310	916,630
Bay Area	3,247,050	3,304,530	3,346,740	3,342,710
<i>change</i>		57,480	42,210	-4,030

Oakland MSA includes Alameda and Contra Costa Counties

San Francisco MSA includes Marin, San Francisco and San Mateo Counties

Vallejo MSA includes Solano County

Napa MSA includes Napa County

Sonoma MSA includes Sonoma County

Santa Clara MSA includes Santa Clara and San Benito Counties

Source: California Employment Development Department Note: Totals may not add up due to rounding



Unemployment Rates

Primary Metropolitan Statistical Areas

MSA	Dec-05	Dec-06	Dec-07	Dec-08
Oakland	4.3%	4.0%	5.0%	7.7%
San Francisco	3.9%	3.5%	4.1%	6.1%
Vallejo	4.7%	4.6%	5.9%	8.6%
Napa	4.3%	4.0%	5.1%	7.4%
Sonoma	3.9%	3.7%	4.7%	7.0%
Santa Clara	4.6%	4.2%	5.1%	7.8%
Bay Area	4.3%	3.9%	4.8%	7.3%

Oakland MSA includes Alameda and Contra Costa Counties

San Francisco MSA includes Marin, San Francisco and San Mateo Counties

Vallejo MSA includes Solano County

Napa MSA includes Napa County

Sonoma MSA includes Sonoma County

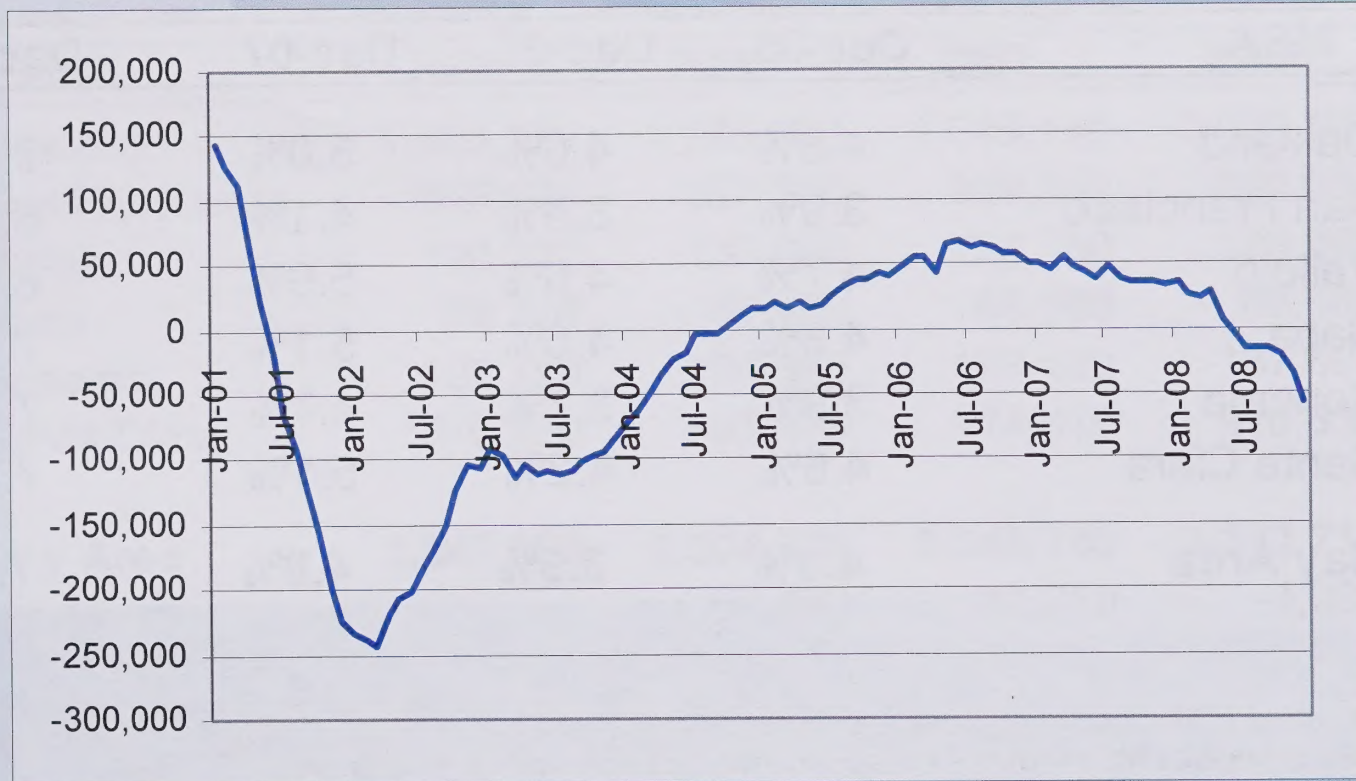
Santa Clara MSA includes Santa Clara and San Benito Counties

Source: California Employment Development Department



Employment Change

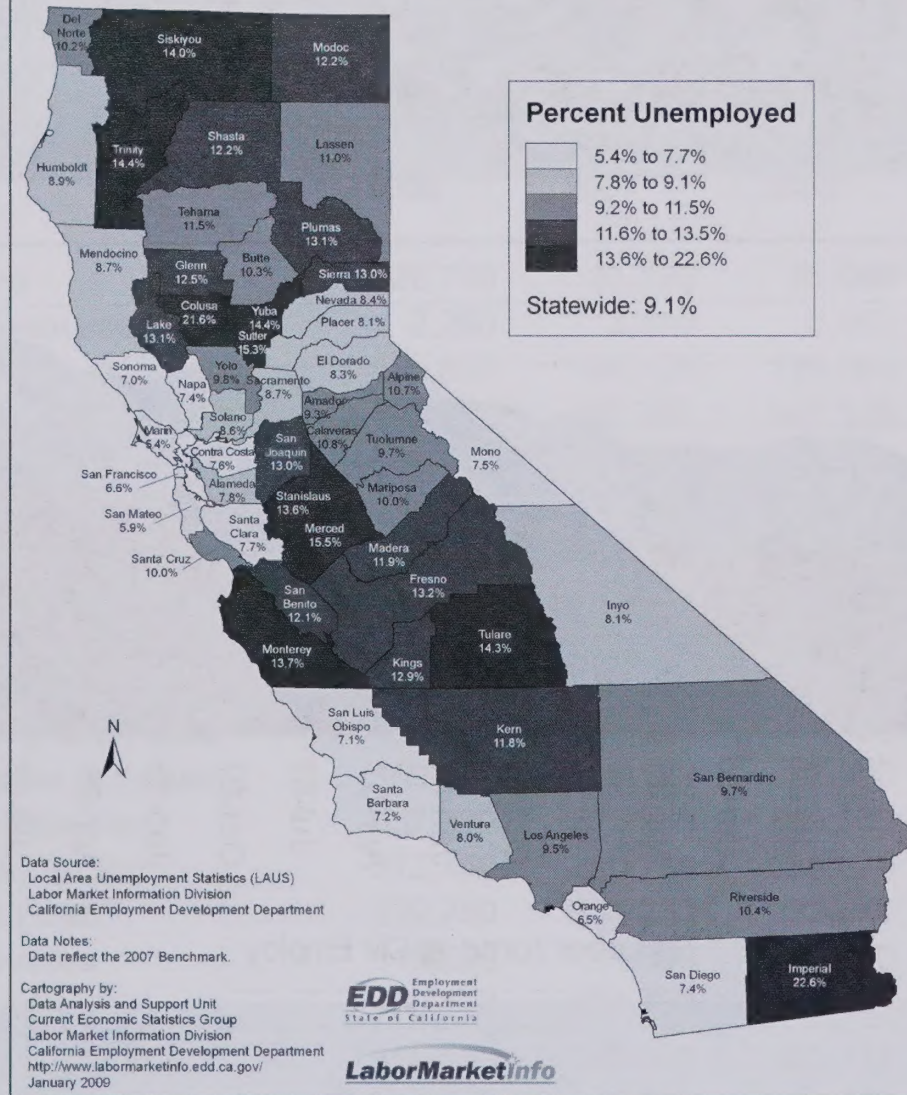
San Francisco Bay Area



Source: California Employment Development Department

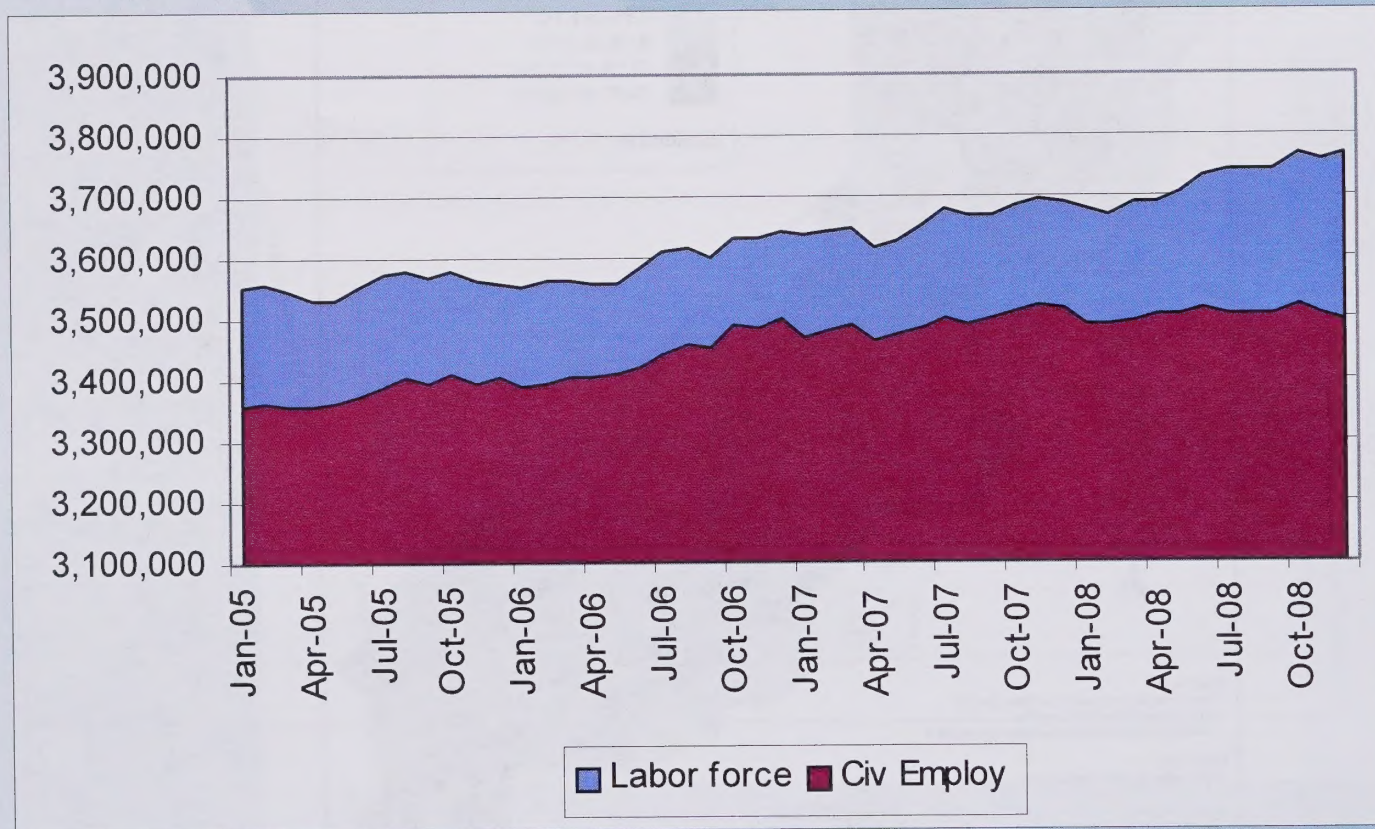
County Unemployment Rates

December 2008 (Not Seasonally Adjusted)



Labor Force Survey

San Francisco Bay Area



Source: California Employment Development Department

Jobs by Industry

San Francisco Bay Area

	2006	2007	2008	2007-06	2008-07
Agriculture	22,740	23,120	23,640	380	520
Natural Resources	2,260	2,380	2,480	120	100
Construction	195,630	194,120	185,680	(1,510)	(8,440)
Manufacturing	347,150	347,300	347,130	150	(170)
Wholesale Trade	127,030	129,180	128,480	2,150	(700)
Retail Trade	341,270	343,470	338,900	2,200	(4,570)
Utilities	14,330	13,930	13,000	(400)	(930)
Transp & Warehouse	86,040	87,010	87,510	970	500
Information	112,070	113,220	113,480	1,150	260
Financial Activities	212,180	206,530	199,320	(5,650)	(7,210)
Finance & Insurance	151,210	147,360	141,800	(3,850)	(5,560)
Real Estate & Leasing	60,970	59,180	57,520	(1,790)	(1,660)
Profess & Bus Serv	557,900	573,980	579,300	16,080	5,320
Educ & Health Serv	372,450	380,730	386,070	8,280	5,340
Leisure & Hosp.	322,780	331,230	332,440	8,450	1,210
Other Services	110,200	111,830	112,430	1,630	600
Government	480,510	488,730	492,860	8,220	4,130
Total Employment	3,304,530	3,346,740	3,342,710		
Change		42,210	-4,030		

Source: California Employment Development Department

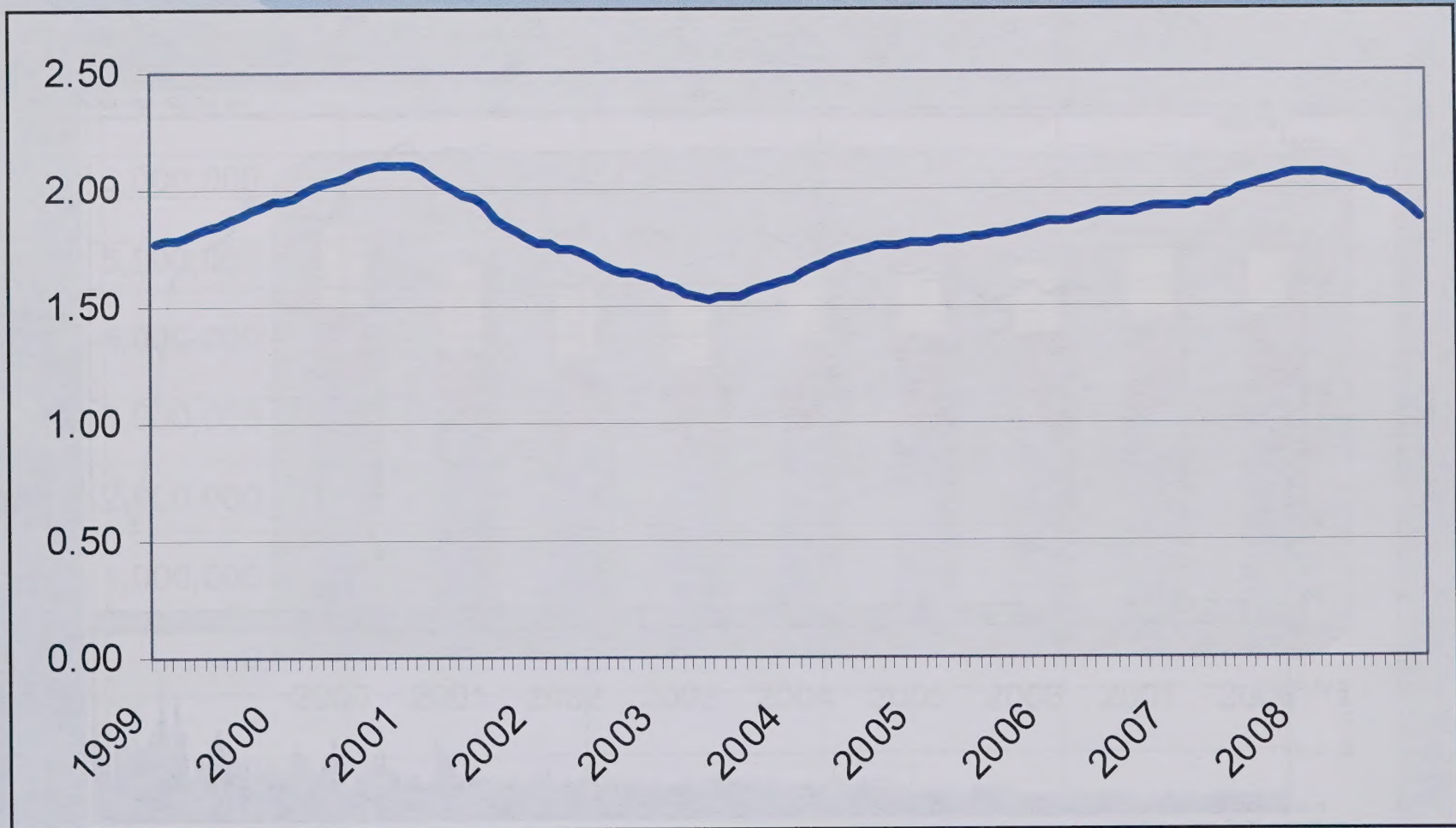


Bay Area Index

- Leading economic indicator for the Bay Area
- Indicates employment growth 3-6 months in advance
- Components include:
 - Book to Bill ratio for printed circuit boards
 - S&P 500
 - Airline passenger travel
 - Regional retail sales data
- Components represent 12-month moving averages

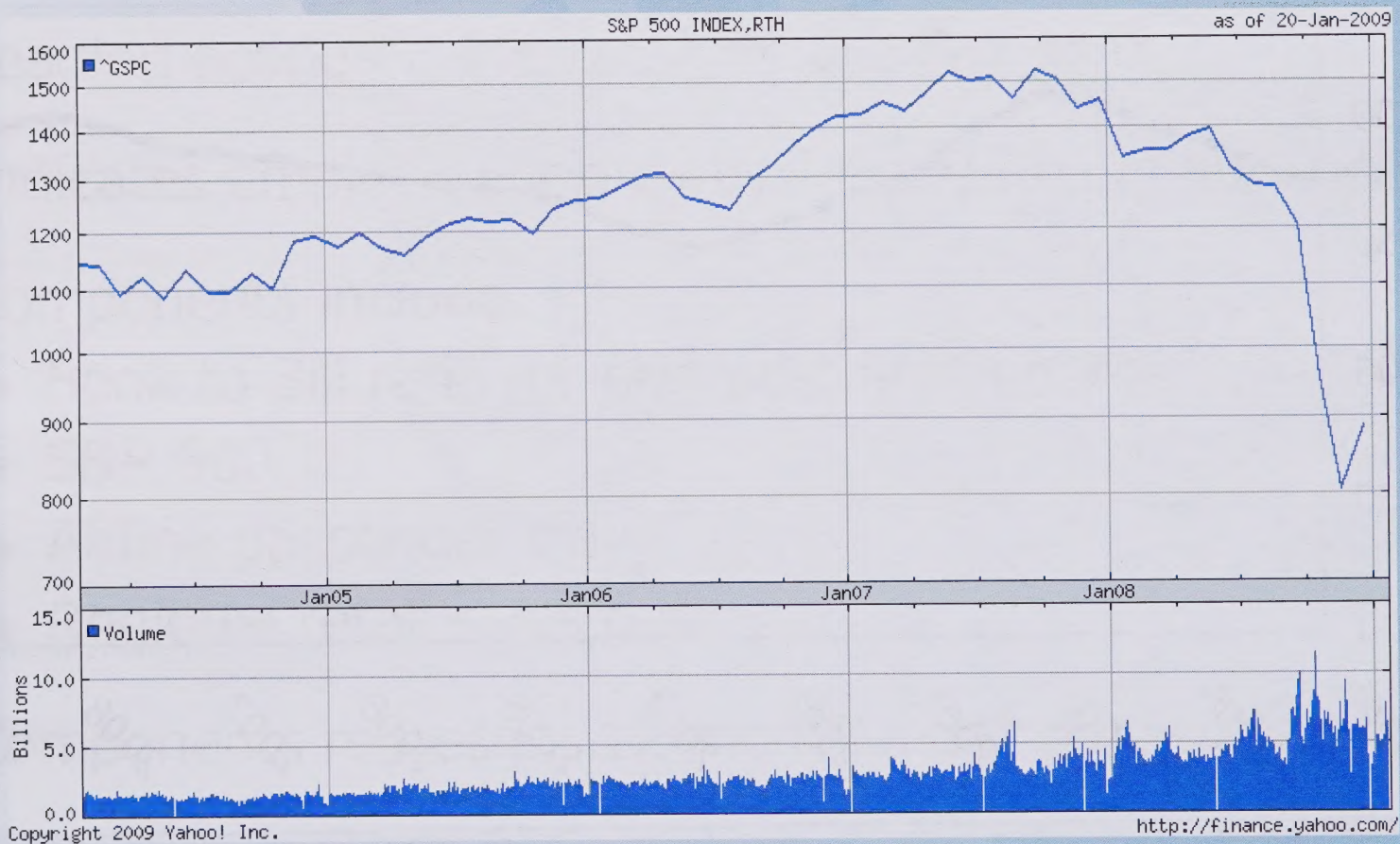


Bay Area Index

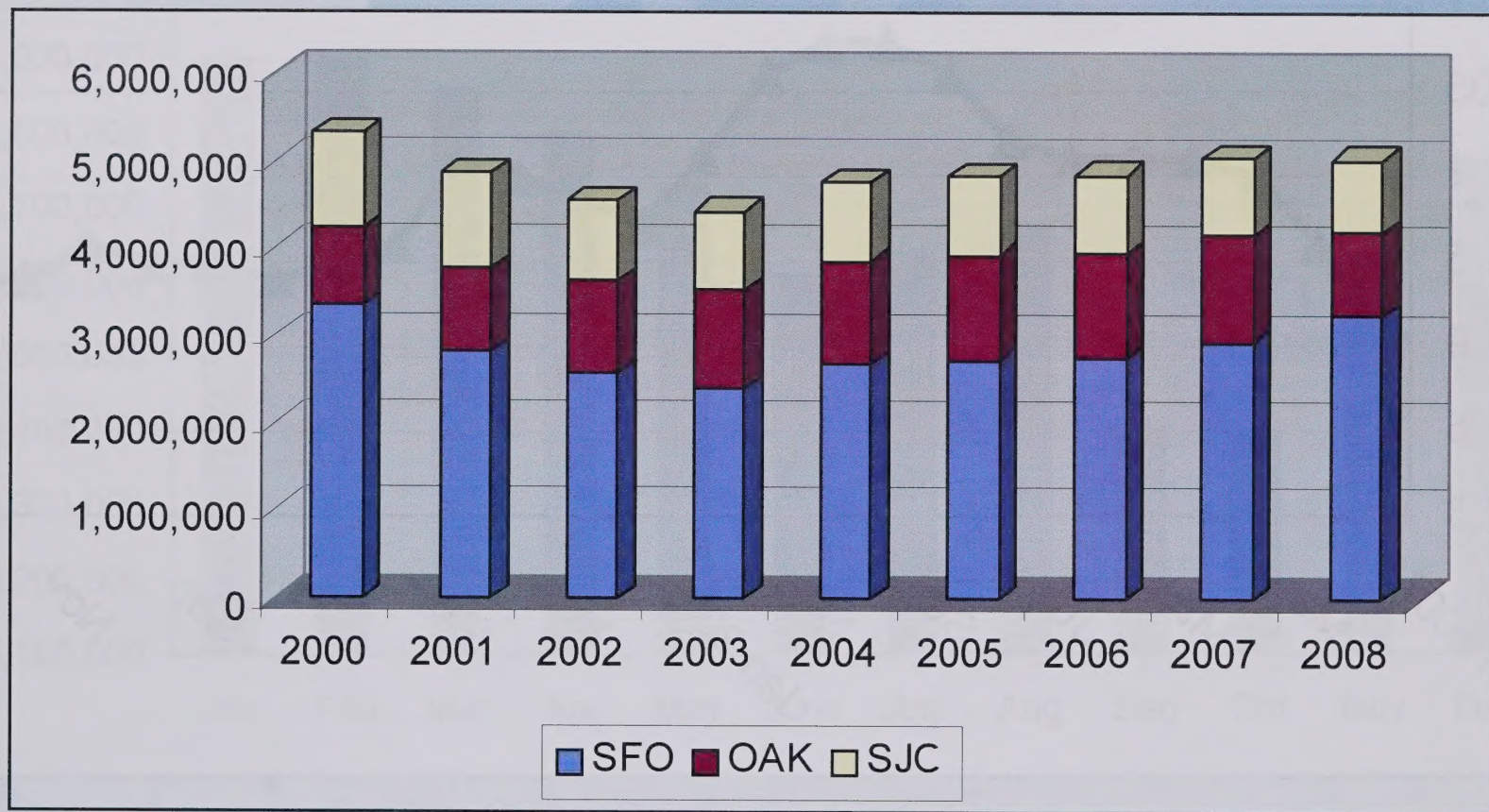


Source: ABAG

S&P 500 Index

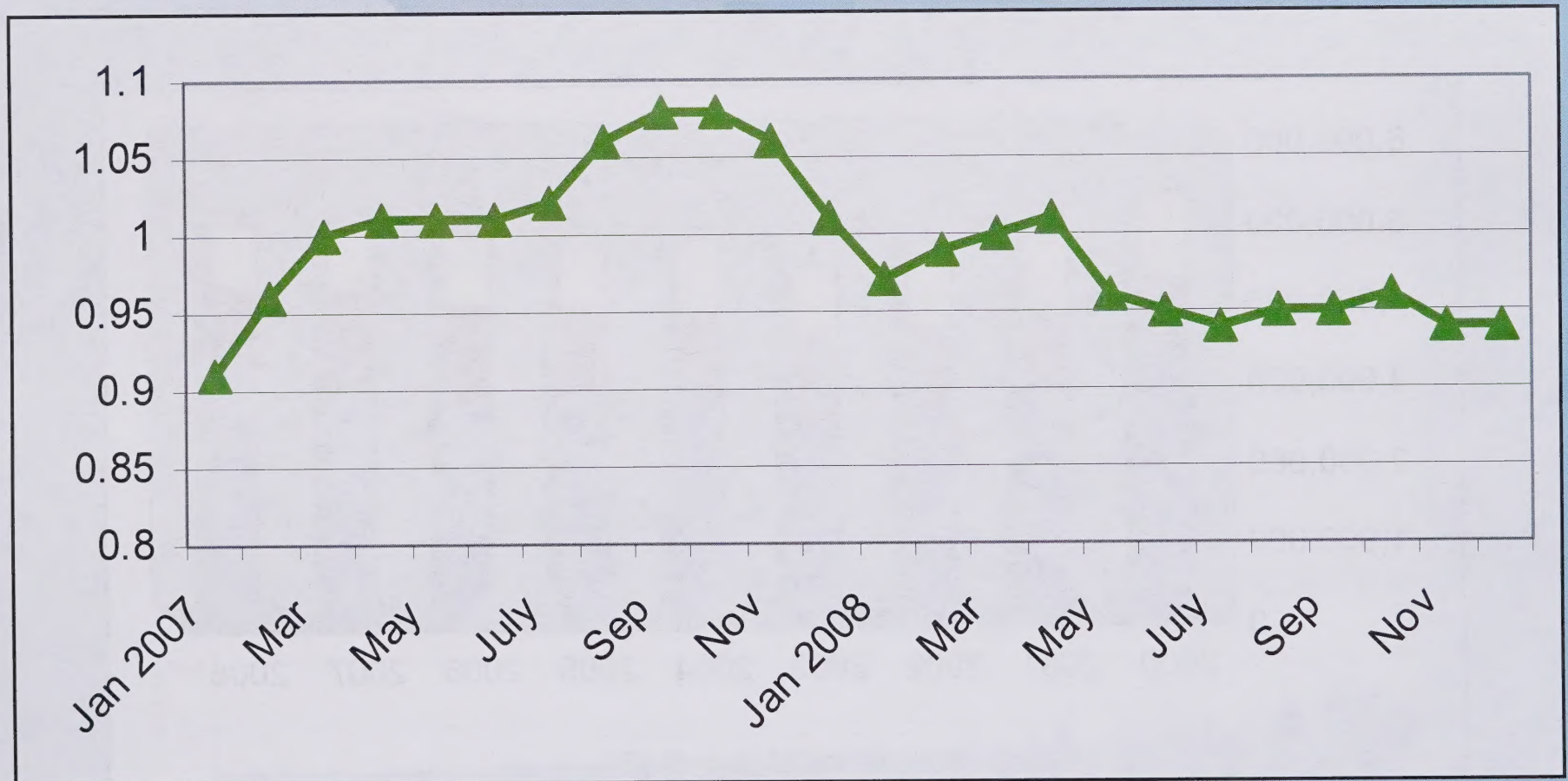


Bay Area Airline Passenger



2008 Book to Bill Ratio

IPC Printed Circuit Boards 12-Month Moving Averages



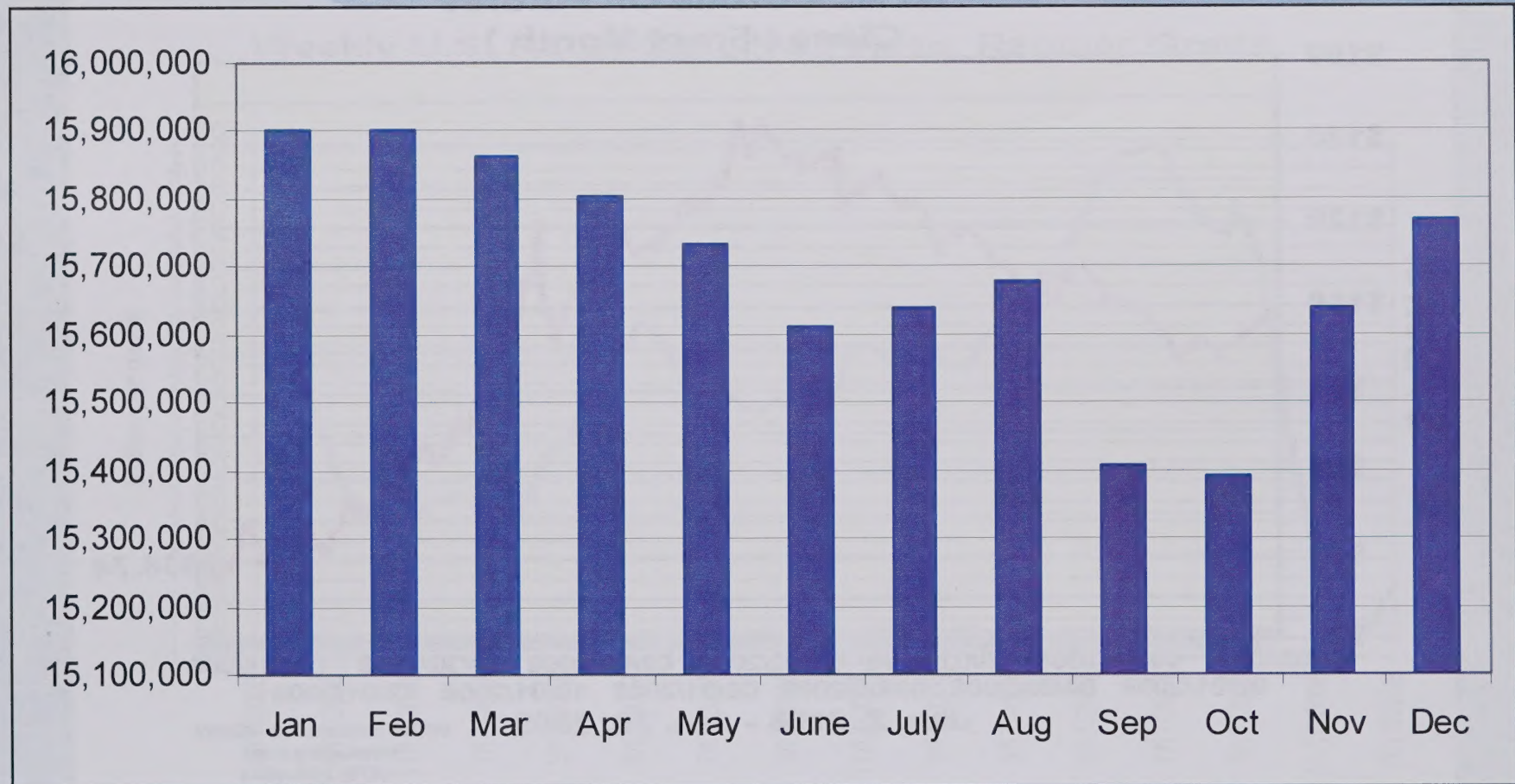
Source: ABAG

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Have We Hit Bottom?

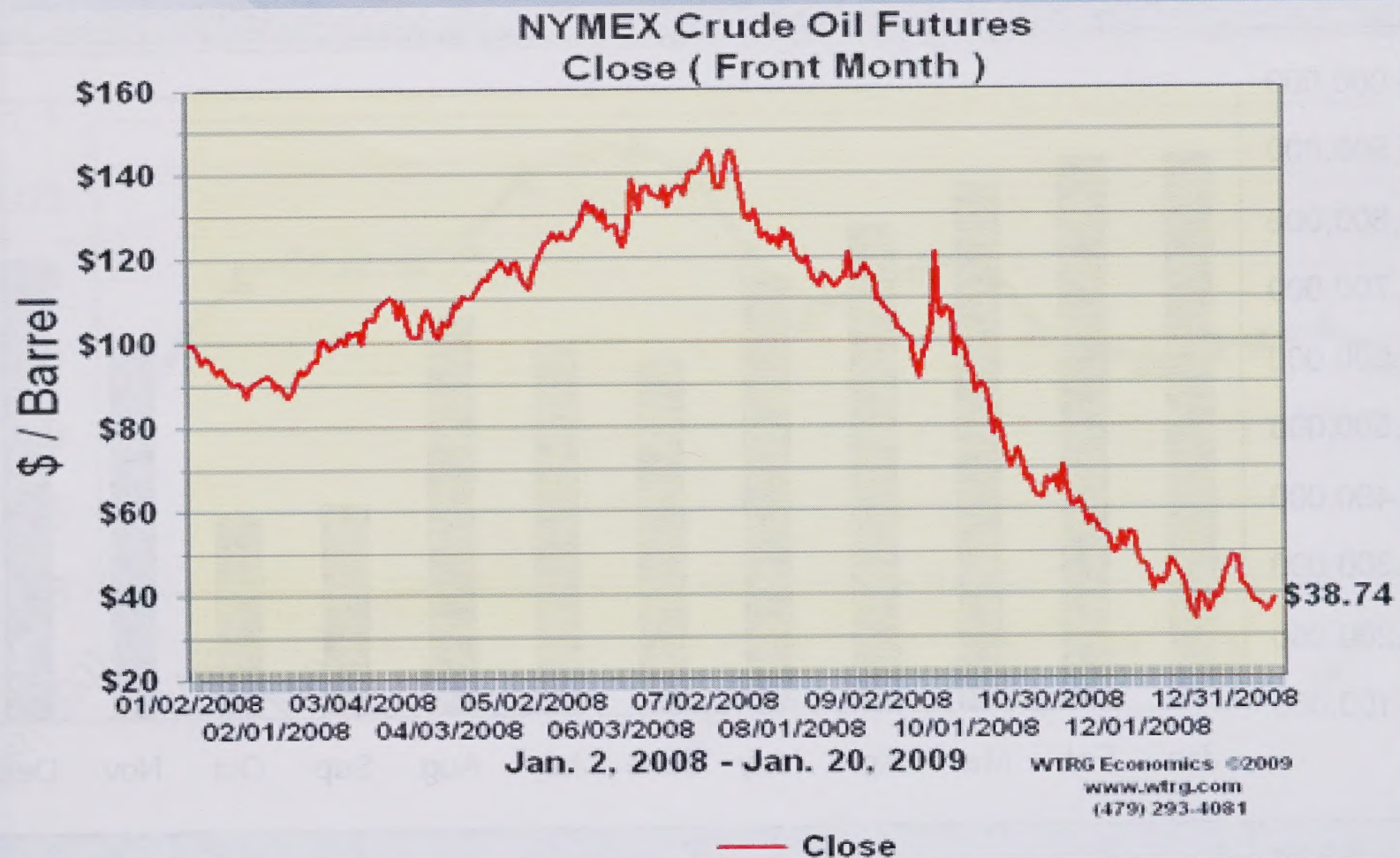
2008 Bay Area Retail Sales

12-Month Moving Average TDA Receipts



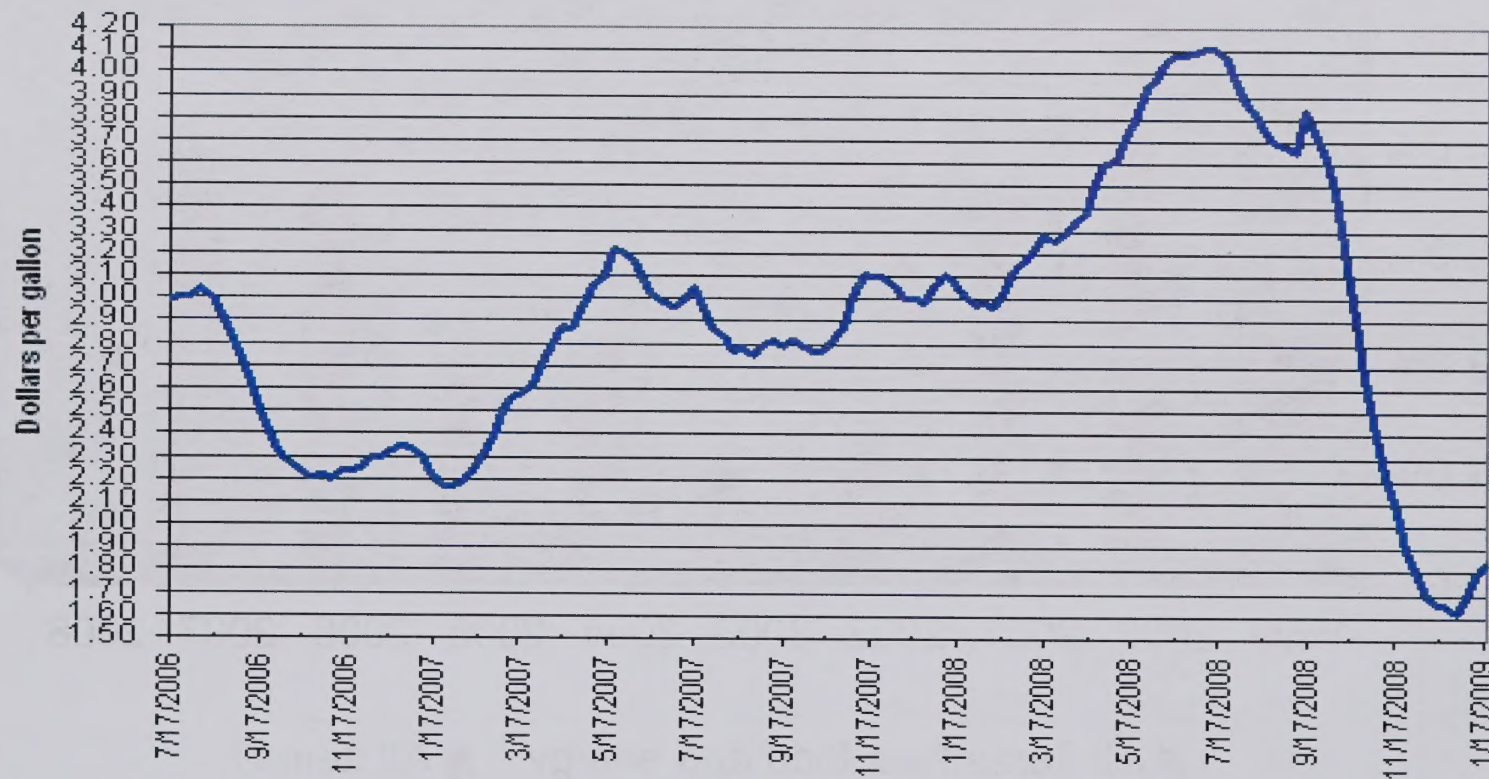
Source: Metropolitan Transportation Commission

Crude Oil Futures



Gasoline Prices

Weekly U.S. Retail Gasoline Prices, Regular Grade

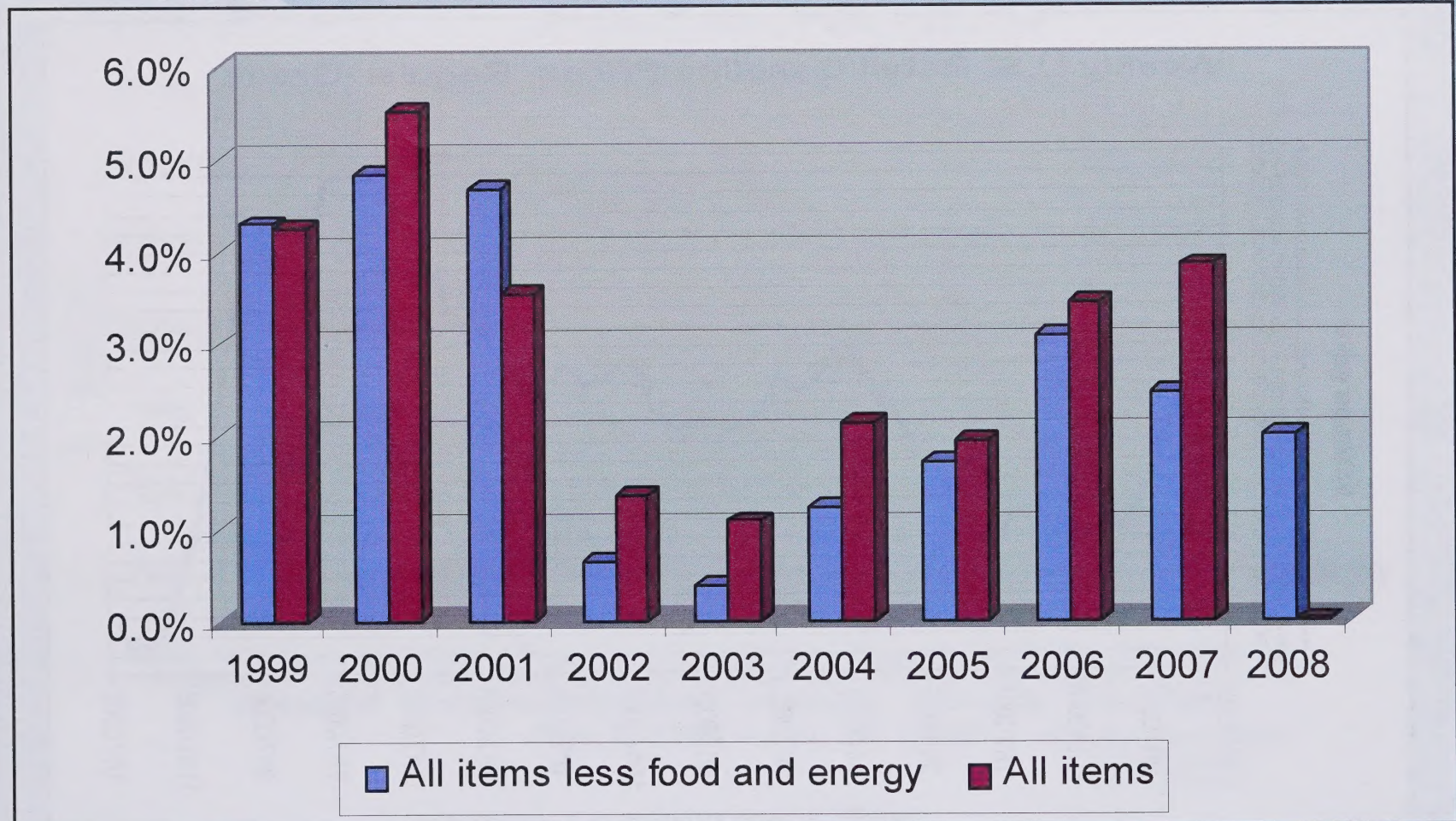


Source: Energy Information Administration



Bay Area Consumer Price Index

All Urban Consumers - December to December



Source: Bureau of Labor Statistics

Bay Area Inflation Rate

All Urban Consumers - December to December

- 2005 at 2.0%
- 2006 at 3.4%
- 2007 at 3.8%
- 2008 at 0.0%
- 2009 at 2.0%
- 2010 at 2.5%



Source: Bureau of Labor Statistics, ABAG

Recession

- A recession is classically two consecutive quarters of negative GDP growth
- Recent employment declines suggest Bay Area might be lagging the U.S.
- How do we get out?
 - Dragged along by the U.S. economy
 - Hindered by California state budget
 - Unique aspects of the California economy



Growth Ranges for the Bay Area

1990-2008

- Inflation (BLS CPI-U Bay Area)
 - 1.6% to 5.4% annual change
- Household Income
 - -2.0% to 6.3% real annual change
 - 1.2% to 8.5% nominal annual change
- Employment
 - -4.9% to 5.3% annual change
 - -171,300 to 177,200 annual change



Household Income

Constant 2005 Dollars

County	2005	2006	2007	2008	2009	2010
Alameda	\$88,800	\$89,870	\$90,770	\$90,770	\$90,770	\$91,220
Contra Costa	\$98,400	\$99,580	\$100,580	\$100,580	\$100,580	\$101,080
Marin	\$121,600	\$123,060	\$124,290	\$124,290	\$124,290	\$124,910
Napa	\$85,900	\$86,930	\$87,800	\$87,800	\$87,800	\$88,240
San Francisco	\$97,400	\$98,570	\$99,560	\$99,560	\$99,560	\$100,060
San Mateo	\$121,700	\$123,160	\$124,390	\$124,390	\$124,390	\$125,010
Santa Clara	\$97,900	\$99,070	\$100,060	\$100,060	\$100,060	\$100,560
Solano	\$84,400	\$85,410	\$86,260	\$86,260	\$86,260	\$86,690
Sonoma	\$82,600	\$83,590	\$84,430	\$84,430	\$84,430	\$84,850
Region	\$97,300	\$98,400	\$99,400	\$99,400	\$99,400	\$99,800



Source: ABAG

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Have We Hit Bottom?

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Average Annual Employment Growth

Wage and Salary Employment

Primary Metropolitan Statistical Areas

MSA	2008	2009	2010
Oakland	-15,340	-27,000	-2,000
San Francisco	10,100	-8,900	-1,500
Vallejo	-1,890	-1,500	-200
Napa	100	-1,200	-100
Sonoma	690	-200	0
Santa Clara	2,310	-18,000	-1,800
Total	-4,030	-56,800	-5,600

Oakland MSA includes Alameda and Contra Costa Counties

San Francisco MSA includes Marin, San Francisco and San Mateo Counties

Vallejo MSA includes Solano County

Napa MSA includes Napa County

Sonoma MSA includes Sonoma County

Santa Clara MSA includes Santa Clara and San Benito Counties

Source: ABAG



Forecast Summary

	2006	2007	2008	2009	2010
Inflation	3.4%	3.8%	0.0%	2.0%	2.5%
Income Growth	4.2%	1.2%	0.0%	0.0%	0.5%
Job Growth	27,000	54,100	-4,030	-56,800	-5,600

Inflation estimates are for the Bay Area only

Income growth describes expected growth in real income

Jobs growth is for wage and salary jobs



Source: ABAG

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Have We Hit Bottom?

Conclusions

- Bay Area Index and its components suggest a slightly lagging recession
- Our expectations are for a moderate dip
- Energy prices, mortgage industry and state budget continue to weigh on regional economy



Bay Area Retail Sales: Just a Bump in the Road?

Hing Wong

Senior Regional Planner

Association of Bay Area Governments



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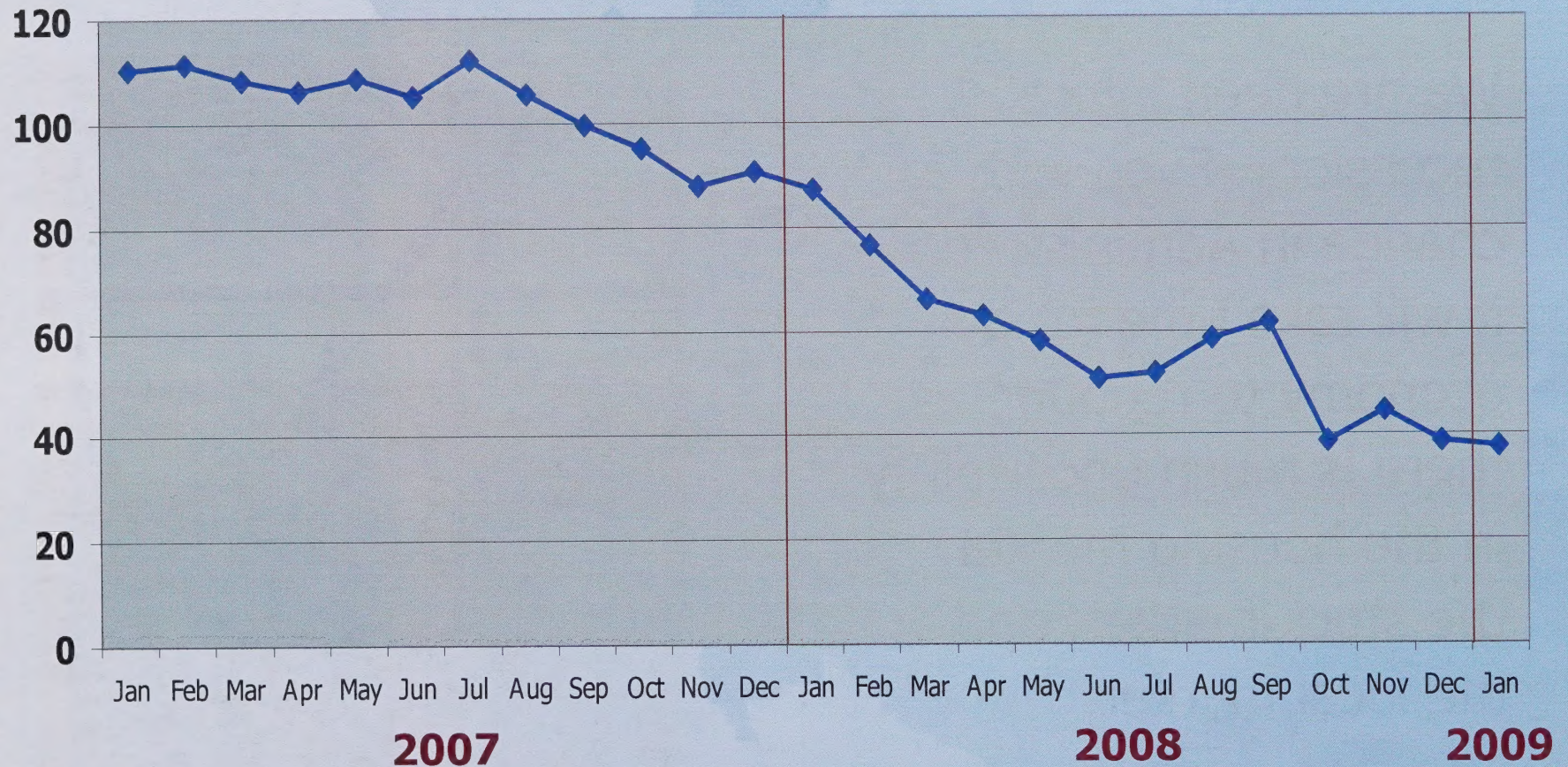


Taxable Sales Forecast

We are deep into a recession. Even with a change in Administration, it will take time for our economy to rebound as there is much uncertainty in the housing market, the stock market, and the local market.



Consumer Confidence Index



Source: The Conference Board

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Have We Hit Bottom?

Effects on Taxable Sales

- Housing market and subprime mortgage rates
- California's budget issues
- Unemployment rate rising
- Sales slowed during last half of 2007
- 2008 holiday shopping season dismal
- "Flat is the new up"

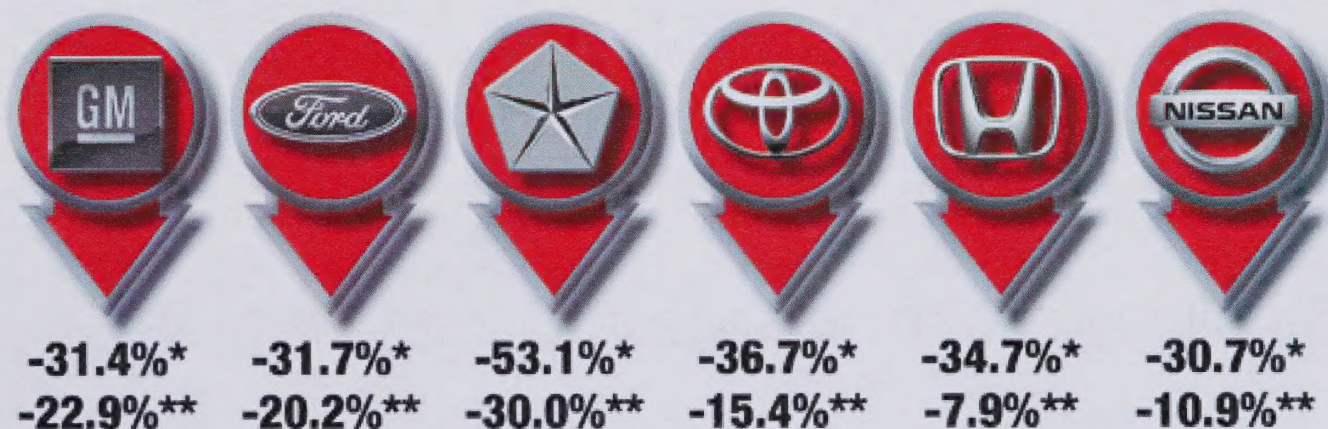


Down is Not the New Up

Vehicle Sales in Percent

December 2008* & Year 2008**

*Unadjusted—December 2008 and December 2007 had 26 selling days;
2008 had 308 selling days, 2007 had 307 selling days*

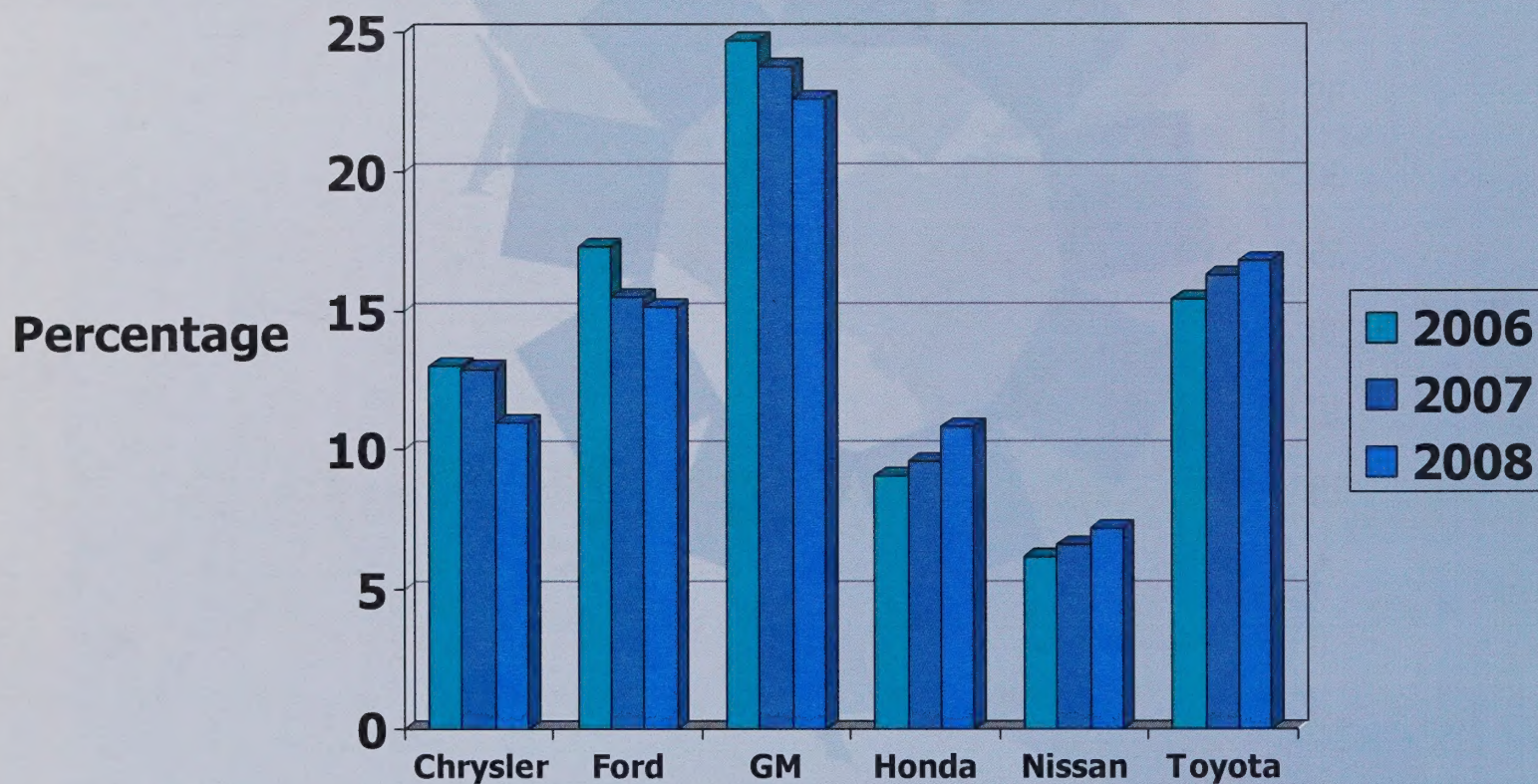


Source: Edmunds.com



Market Share for Top Six Auto

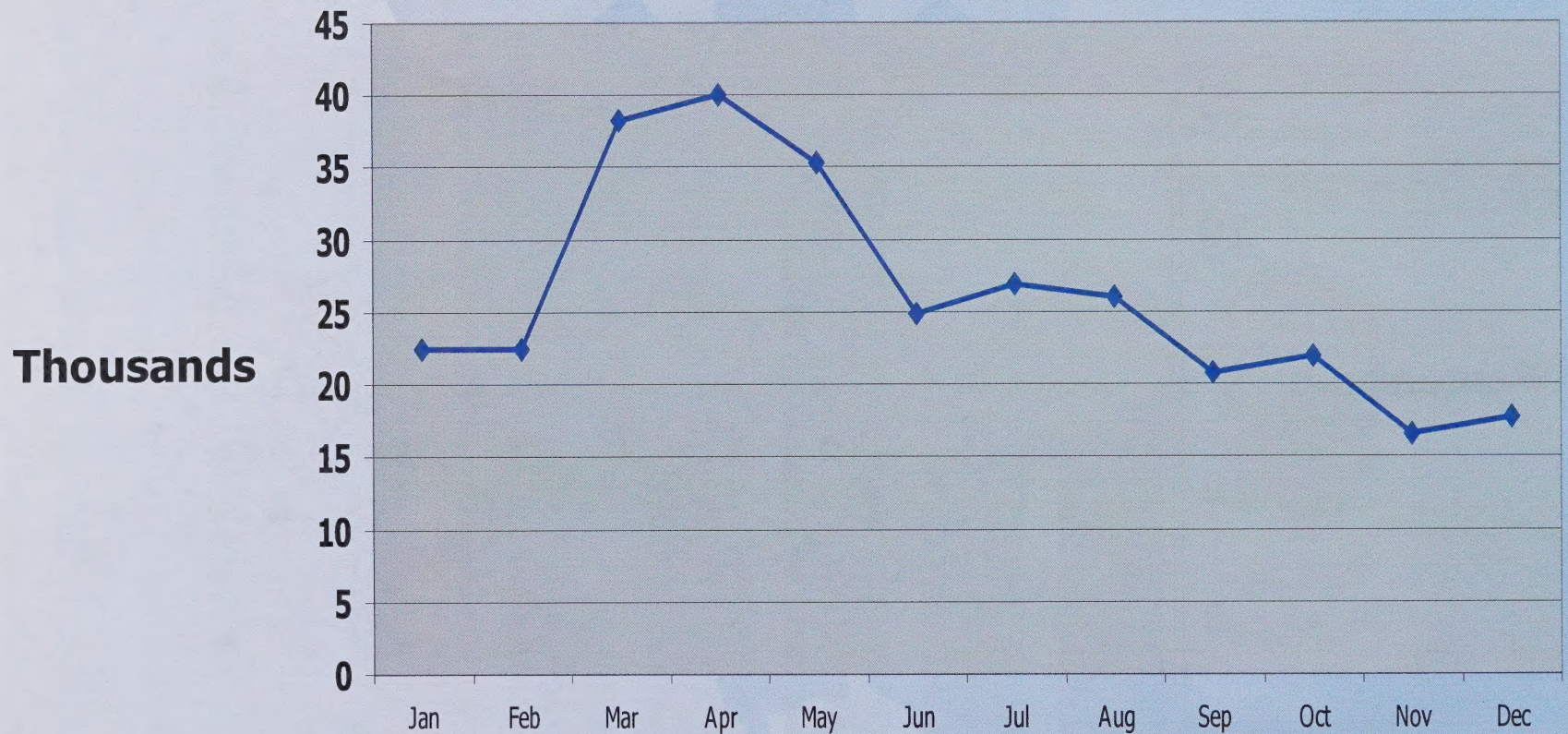
2006 to 2008 Shares for US Sales



Source: autoobserver.com

Hybrid Cars

Monthly 2008 US Sales



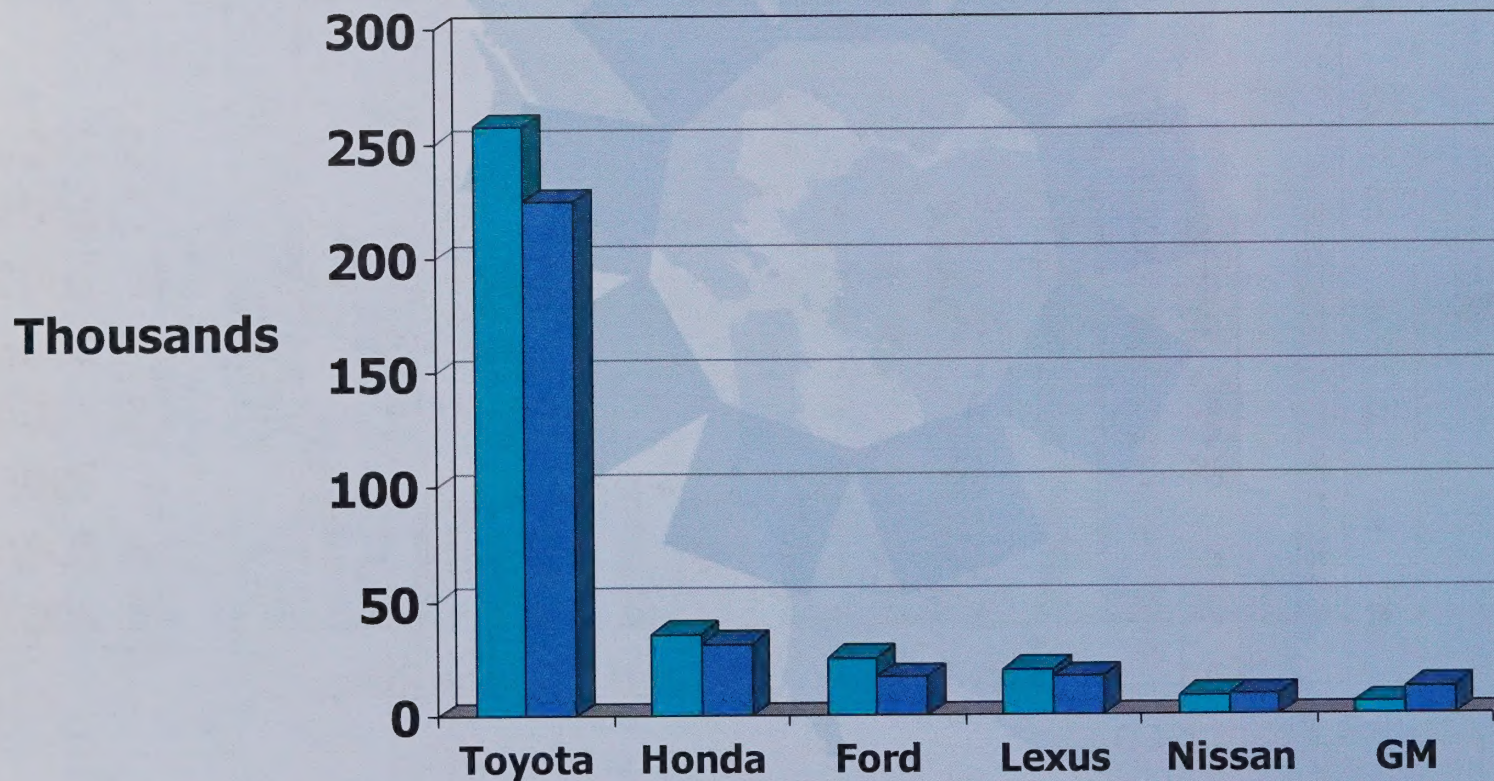
Source: hybridcar.com

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Hybrid Cars

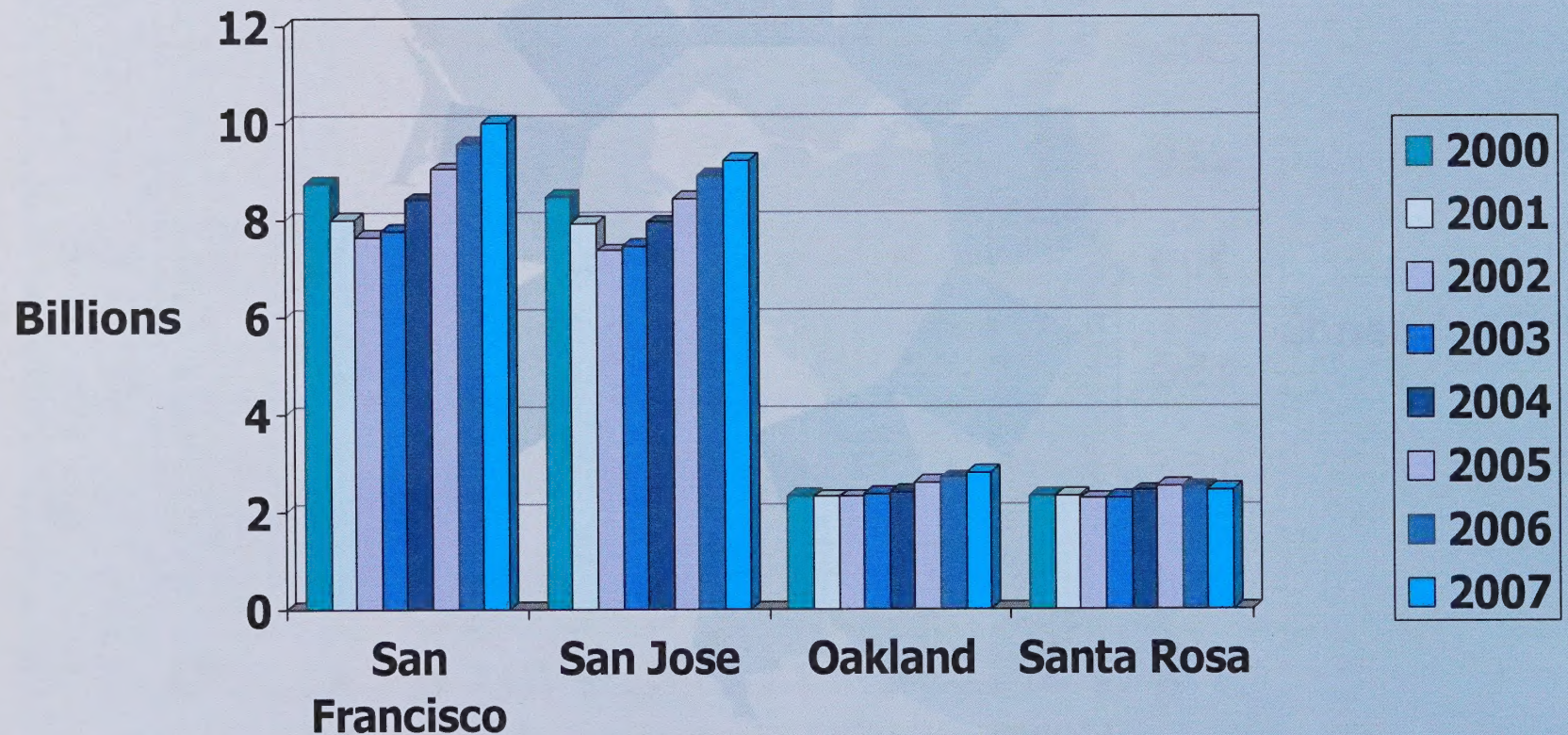
2007 and 2008 US Sales



Source: hybridcar.com

Total Retail Sales

Top Four Bay Area Cities



Source: California State Board of Equalization; taxable transactions in billions of dollars

Chain Stores

Closing Stores or Ceasing Operations

- Circuit City
- Macy's
- Office Depot
- Sears
- Mervyn's
- Linens 'n' Things
- Home Depot



Retailer Ups & Downs

2007 and 2008 Comparable-Store Sales

General Merchandise

	2007	2008
■ Costco	8.0%	-1.0%
■ J.C. Penney	-1.1%	-8.0%
■ Kohl's	-0.4%	-6.6%
■ Macy's	-1.0%	-4.6%
■ Target	3.3%	-2.9%
■ Wal-Mart	1.0%	2.8%

Specialty Apparel

	2007	2008
■ Aeropostale	3.0%	8.0%
■ American Eagle Outfitter	2.0%	-10.0%
■ The Gap	-5.0%	-11.0%
■ Ross	1.0%	2.0%
■ Saks Fifth Avenue	12.3%	-5.1%

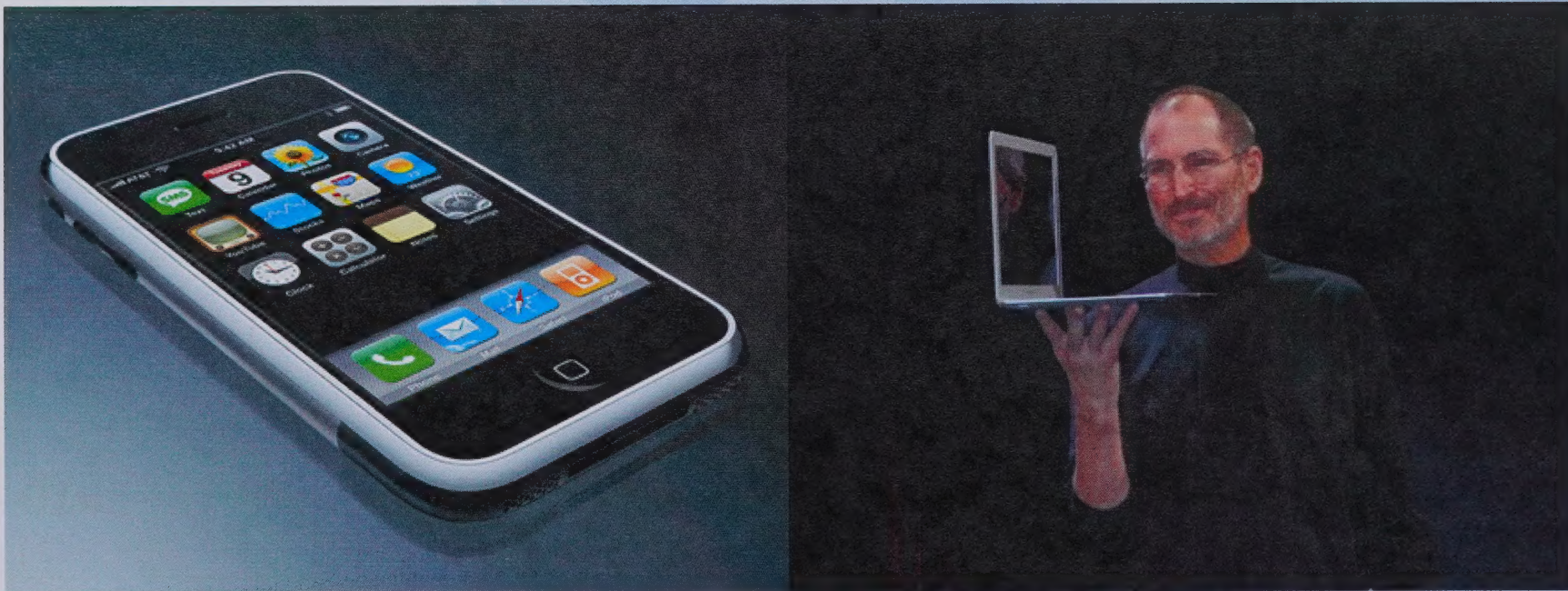
Comparable-Store Sales – 2007 compared to 2006; 2008 compared to 2007



Source: Business Wire Retail Report

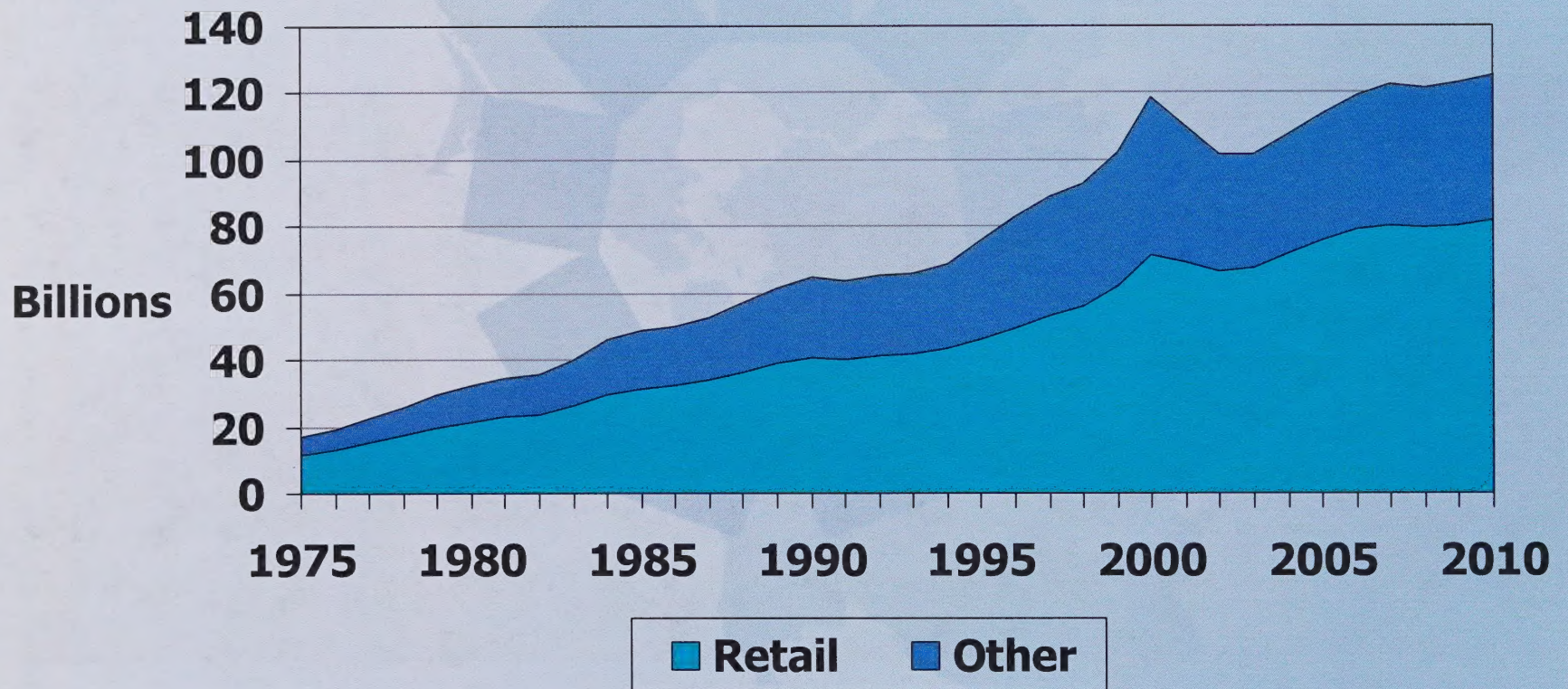
High Ticket Electronic Items

Trade Shows Buzz



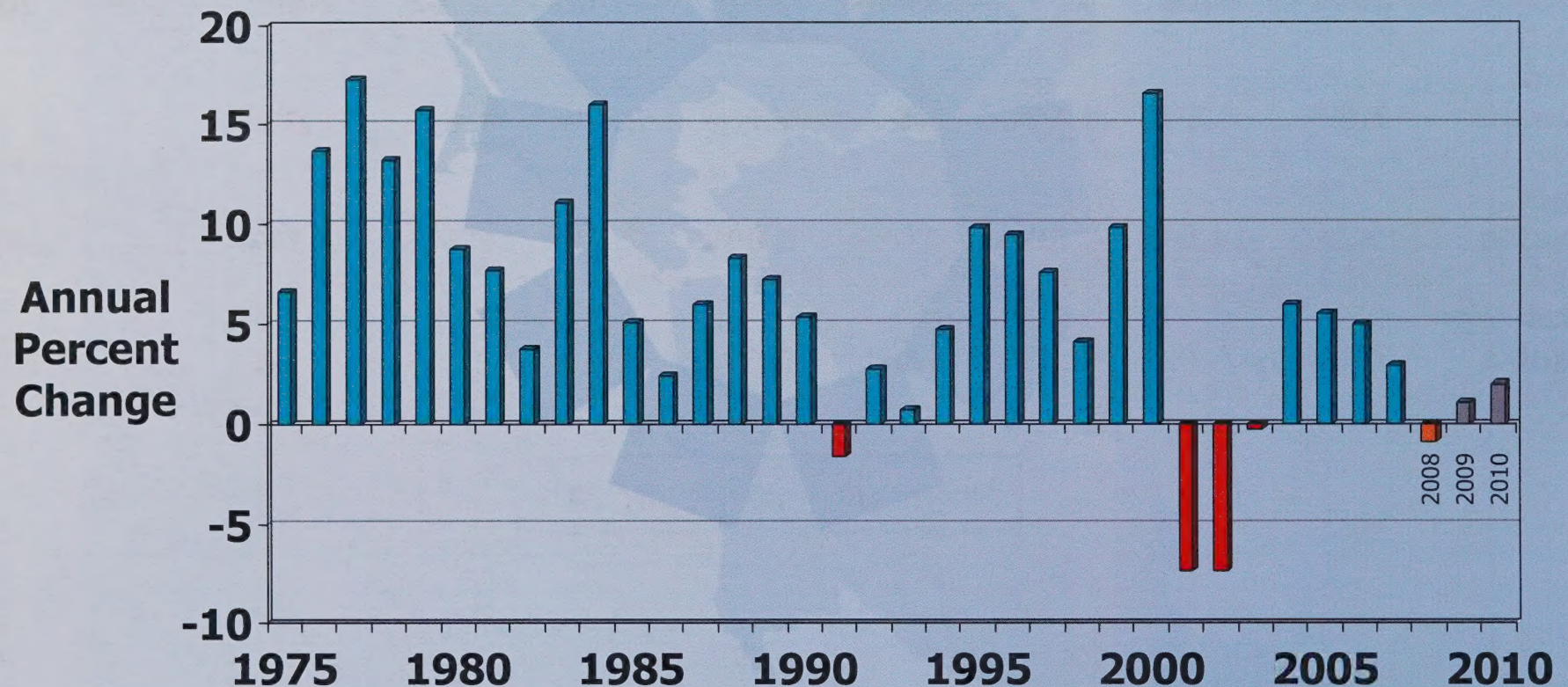
Regional Taxable Sales

San Francisco Bay Area
Nominal Dollars



Taxable Sales Growth

San Francisco Bay Area
Nominal Dollars



Taxable Sales Growth

San Francisco Bay Area

	2001	2002	2003	2004	2005	2006	2007	Estimate 2008	Forecast 2009	Forecast 2010
Retail Stores	-3.6%	-3.5%	1.1%	6.8%	5.7%	3.8%	1.6%	-1.8%	0.8%	1.8%
Other Taxable	-13.3%	-14.0%	-2.8%	4.4%	5.0%	7.5%	5.4%	0.6%	1.4%	2.3%
Total Taxable	-7.4%	-7.4%	-0.3%	6.0%	5.5%	5.0%	2.9%	-0.9%	1.1%	2.0%

Nominal Percent Growth



Taxable Sales Growth

East Bay and South Bay

	2001	2002	2003	2004	2005	2006	2007	Estimate 2008	Forecast 2009	Forecast 2010
Alameda	-4.2%	-6.6%	0.5%	7.6%	5.4%	4.0%	2.4%	-1.2%	1.0%	2.0%
Contra Costa	-0.6%	-0.8%	0.5%	6.3%	3.8%	2.9%	1.6%	-1.3%	1.0%	1.7%
Santa Clara	-13.9%	-14.6%	-1.4%	5.3%	6.0%	6.9%	4.3%	-1.7%	1.3%	2.3%

Nominal Percent Growth



Source: California State Board of Equalization, ABAG

Taxable Sales Growth

North Bay

	2001	2002	2003	2004	2005	2006	2007	Estimate 2008	Forecast 2009	Forecast 2010
Napa	2.0%	6.3%	-4.2%	7.4%	9.0%	5.1%	5.5%	0.7%	1.3%	1.6%
Solano	7.3%	6.9%	5.2%	7.7%	4.9%	6.9%	-2.7%	-0.4%	0.9%	1.3%
Sonoma	-0.1%	-1.7%	1.4%	5.8%	6.0%	3.6%	-0.2%	-1.1%	0.8%	1.6%

Nominal Percent Growth



Source: California State Board of Equalization, ABAG

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Have We Hit Bottom?

Taxable Sales Growth

West Bay

	2001	2002	2003	2004	2005	2006	2007	Estimate 2008	Forecast 2009	Forecast 2010
Marin	-2.6%	-2.6%	1.1%	4.2%	2.9%	2.7%	2.6%	0.1%	1.2%	1.9%
San Francisco	-11.6%	-7.0%	-0.8%	6.2%	6.7%	6.6%	5.2%	0.8%	1.5%	2.2%
San Mateo	-8.4%	-9.7%	-2.2%	4.0%	5.4%	3.6%	3.3%	-0.2%	1.1%	1.8%

Nominal Percent Growth



Source: California State Board of Equalization, ABAG

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Conclusions

- Consumers will continue to feel the economic pinch as retail sales is forecasted to grow by only by 0.8% in 2009 and 1.8% in 2010
- Total taxable sales is forecasted to increase by 1.1% in 2009 and 2.0% in 2010
- Development for new retail centers will be sluggish in the short term
- Year of the Ox – bullish or having a cow?



The Housing Market: Searching for Bottom in a Sea of Uncertainty

Andrew LePage

Analyst

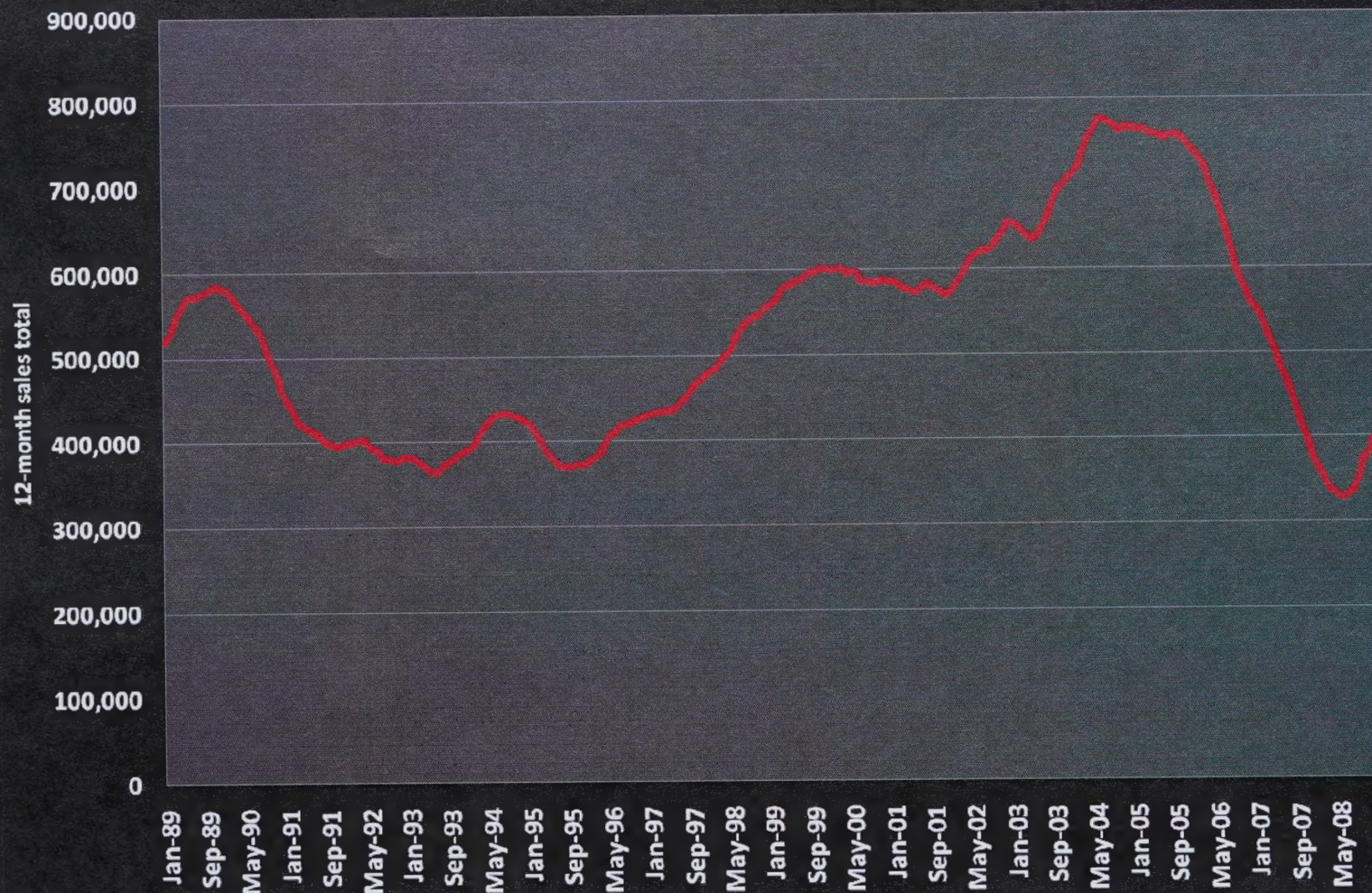
DataQuick Information Systems



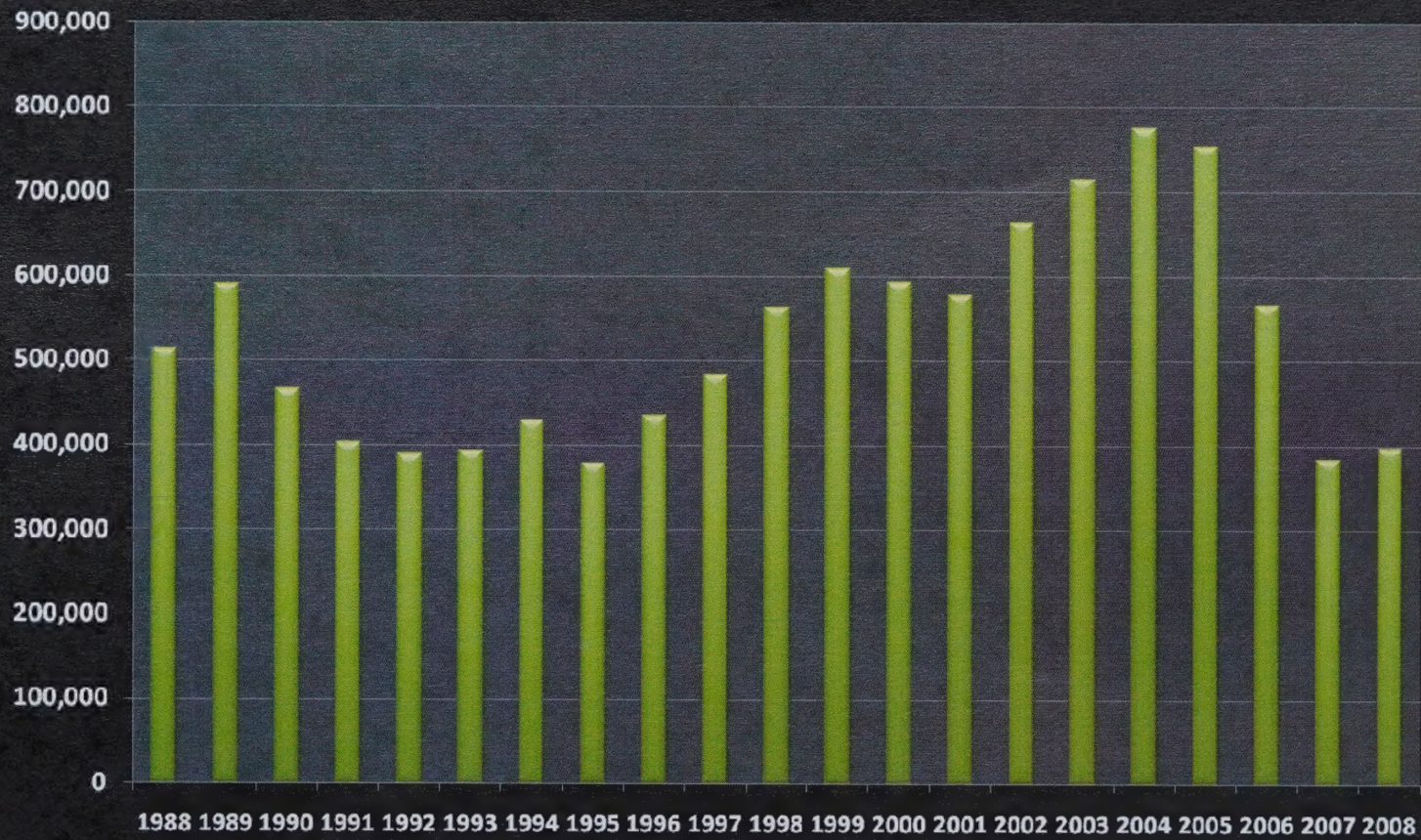
ABAG Bay Area Economic Outlook 2009-10



California home sales (12 months ending)

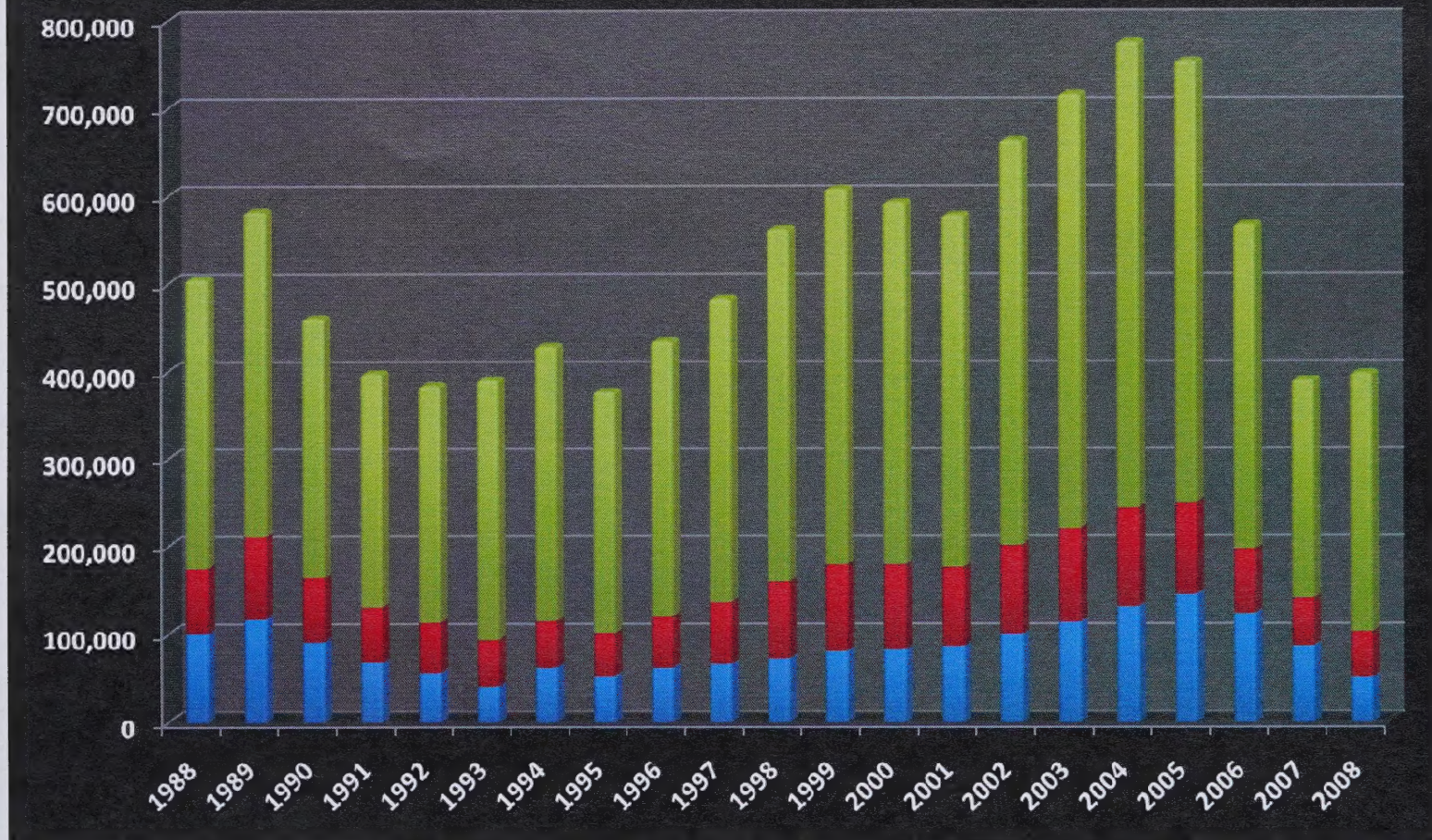


California total annual home sales

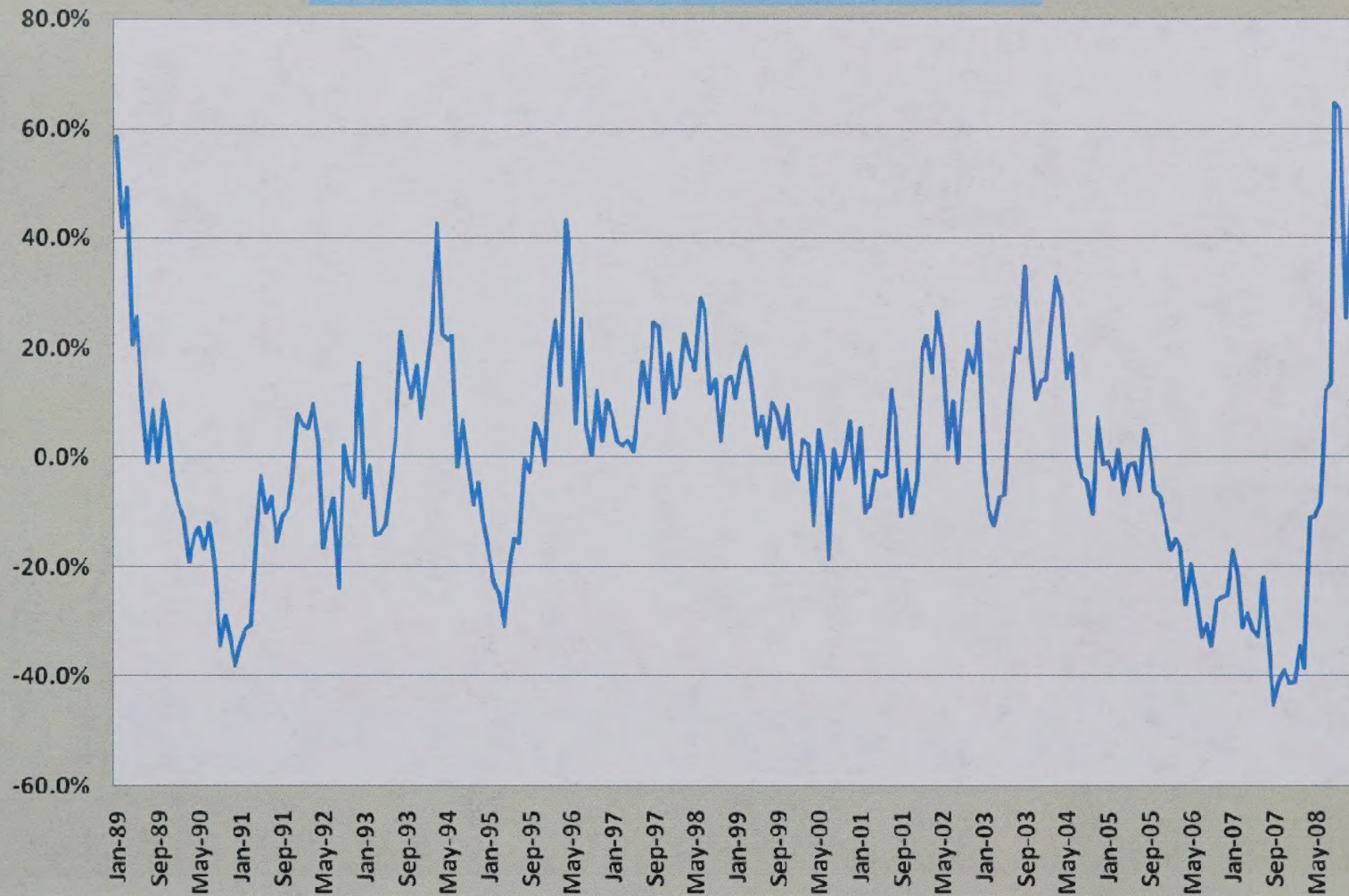


California annual home sales

■ All new ■ Resale condo ■ Resale house

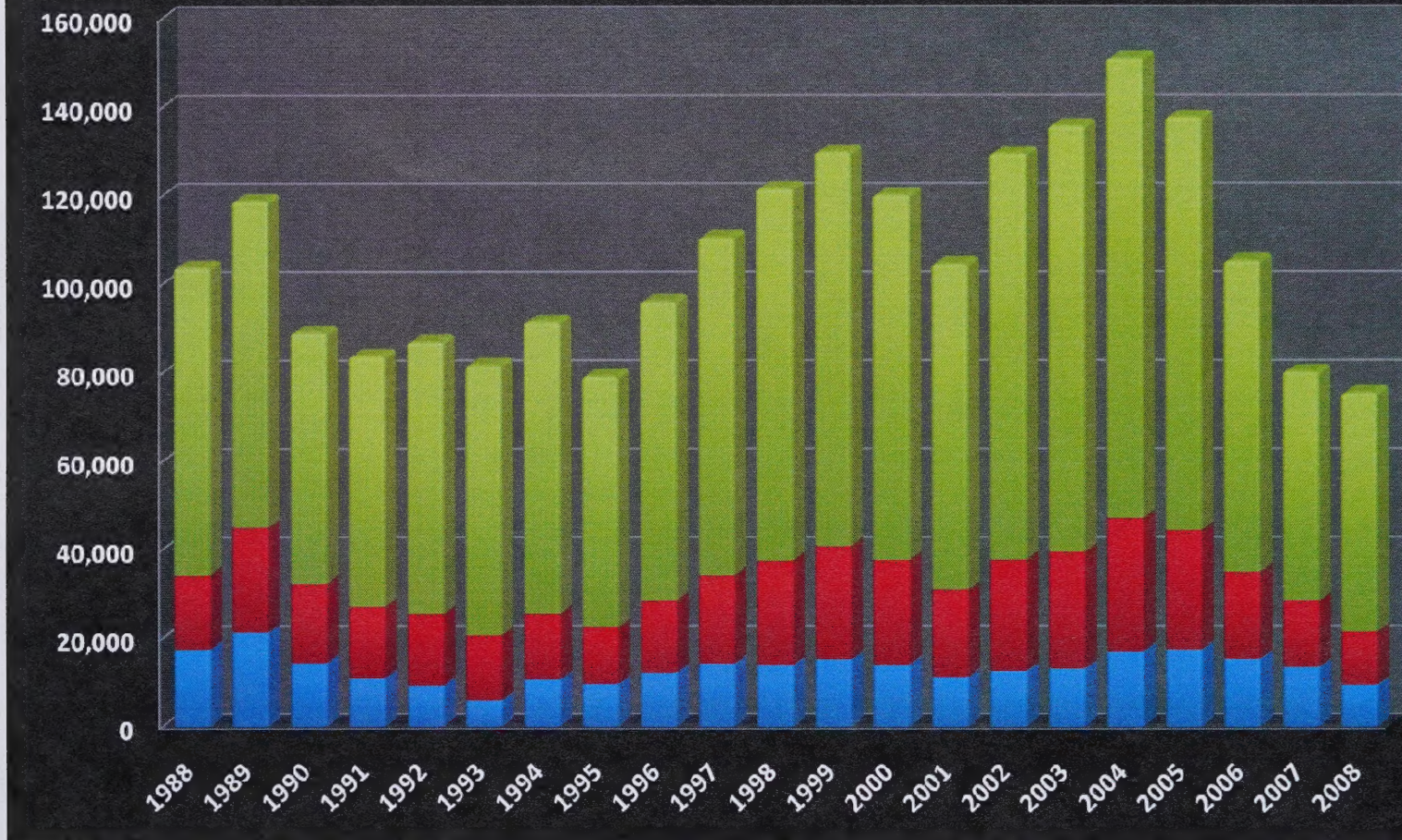


Calif. monthly YOY % chng in total sales

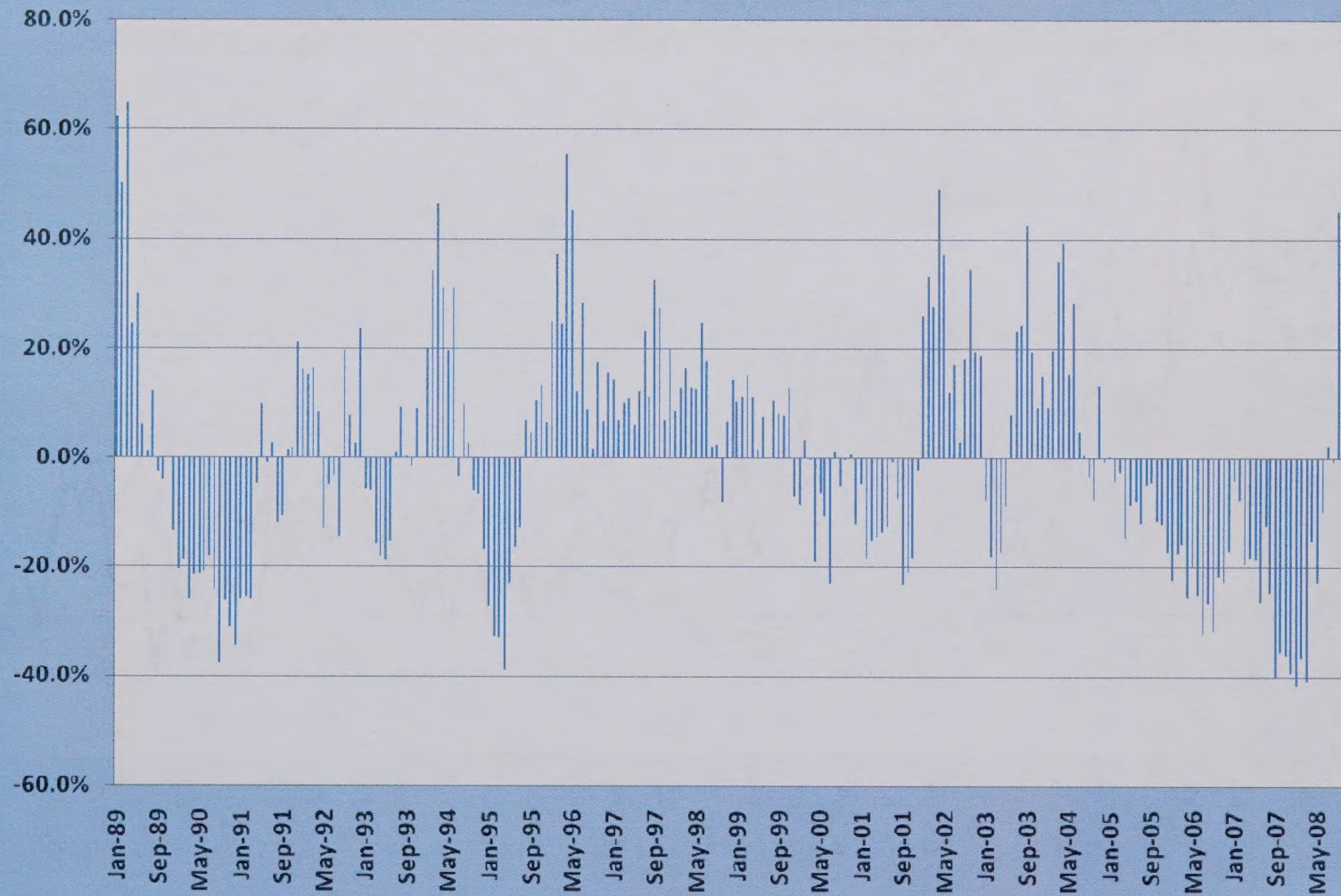


Bay Area annual home sales by type

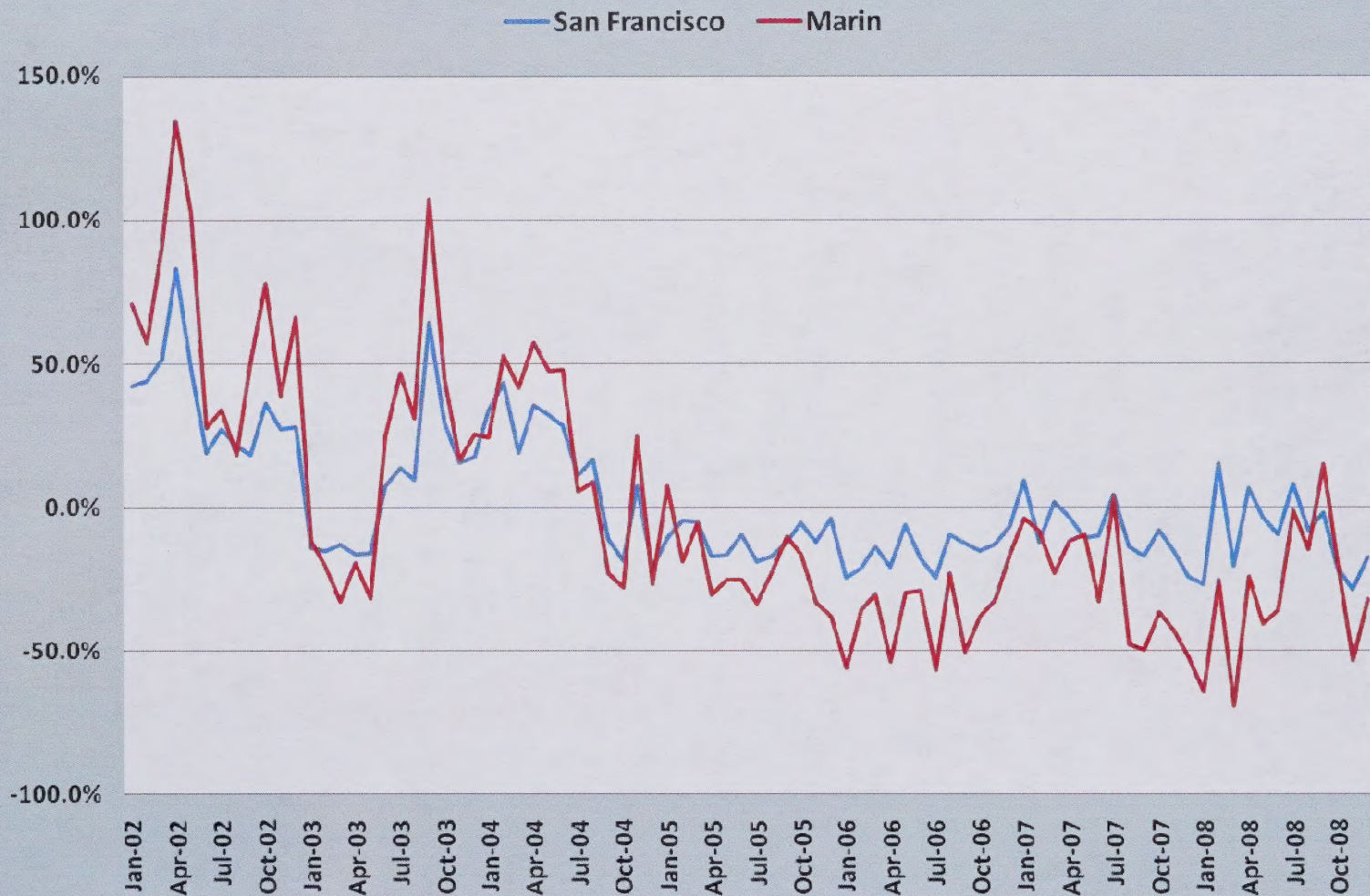
■ All new ■ Resale condo ■ Resale house



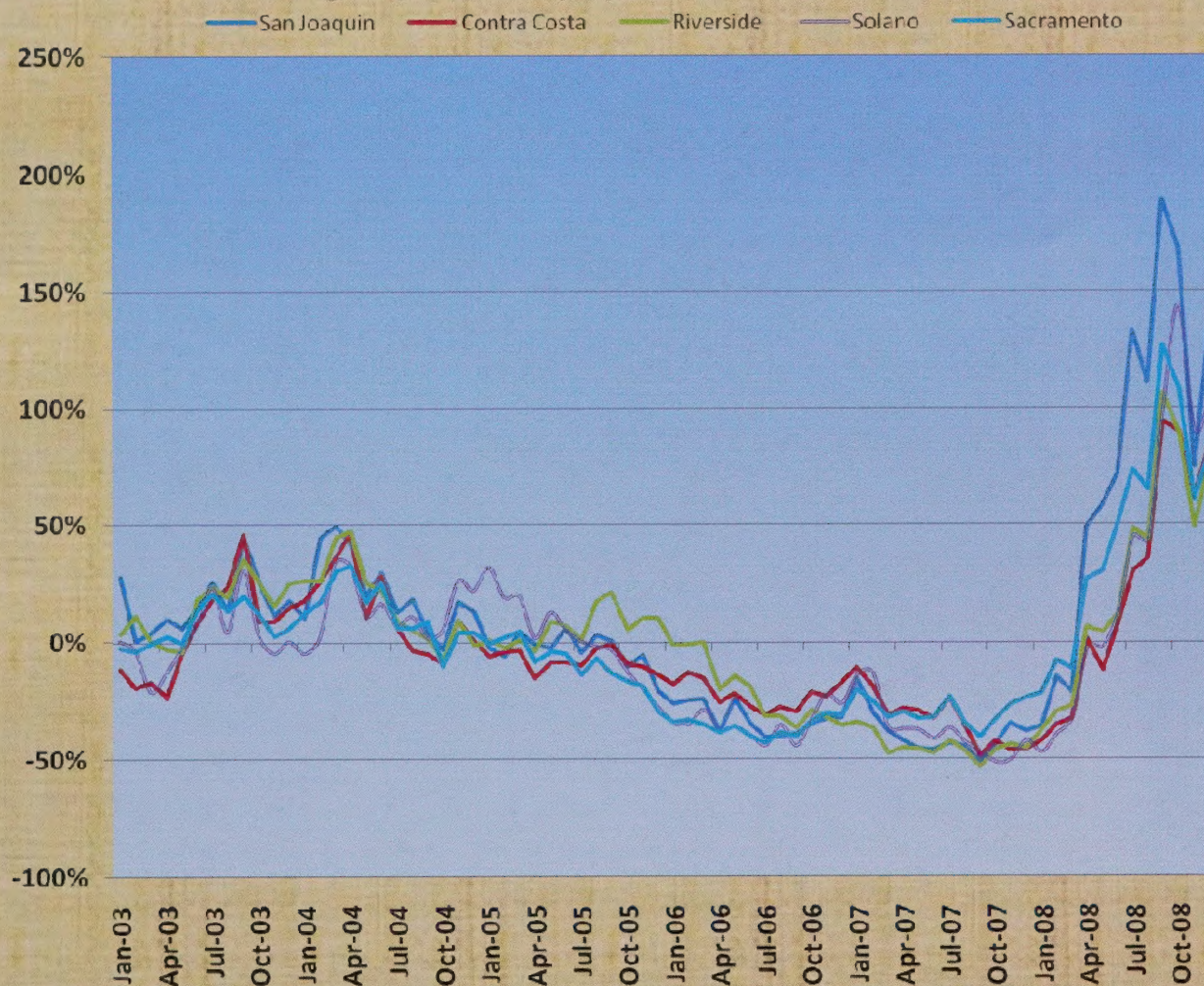
Bay Area (monthly) year-over-year change in sales



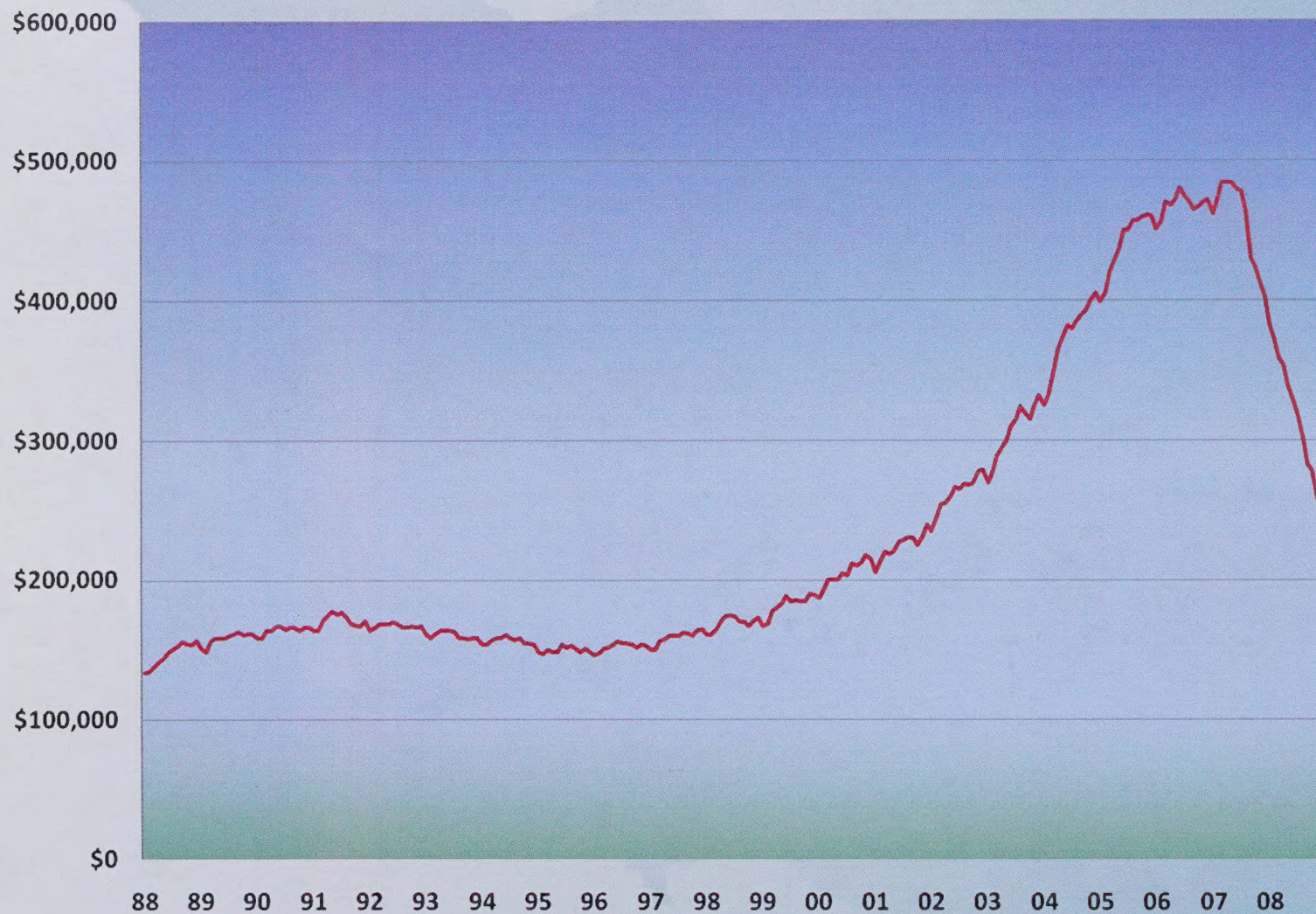
Monthly YOY change in sales: SF and Marin counties



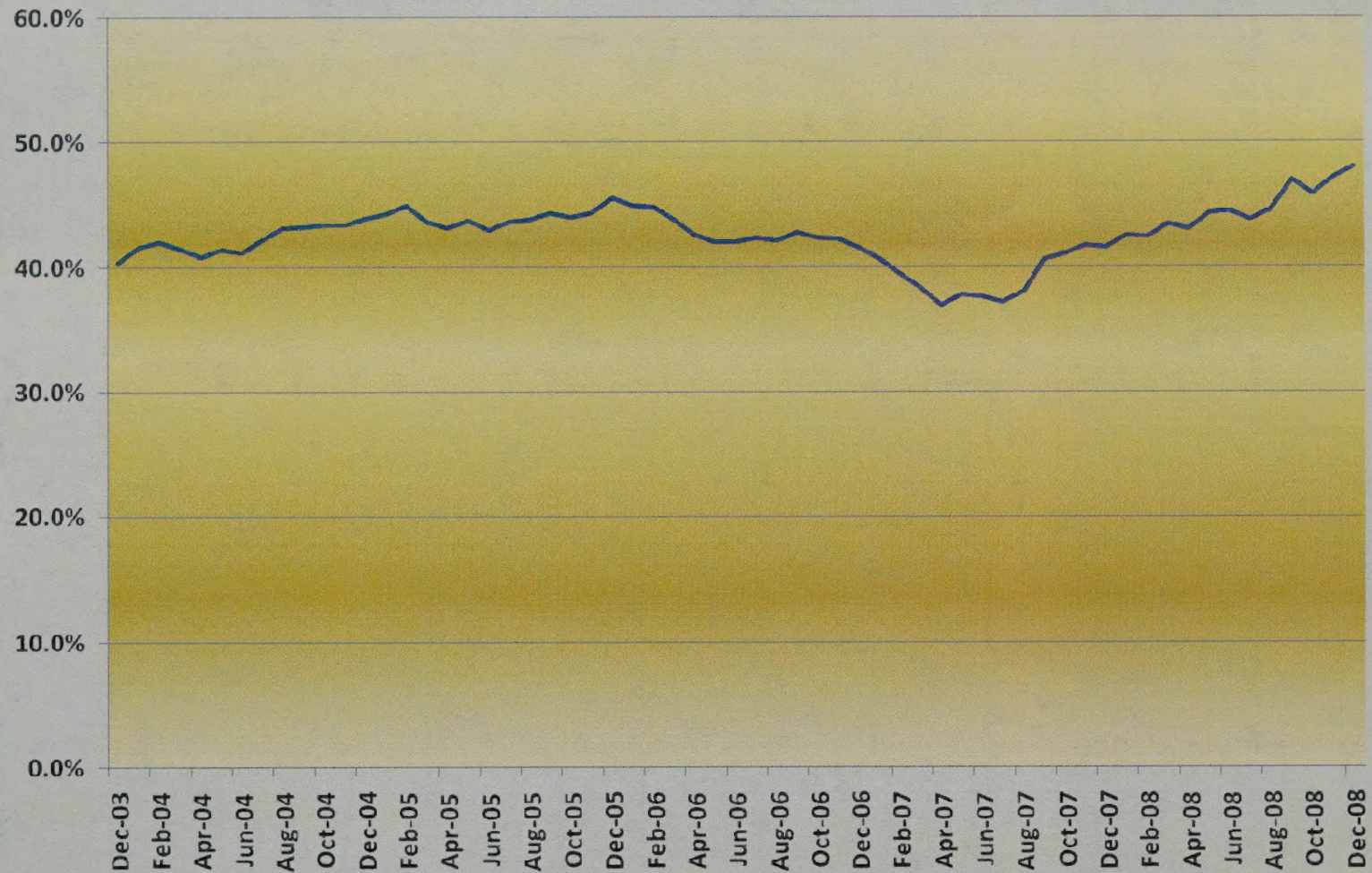
Inland surge: (monthly) year-over-year change in sales



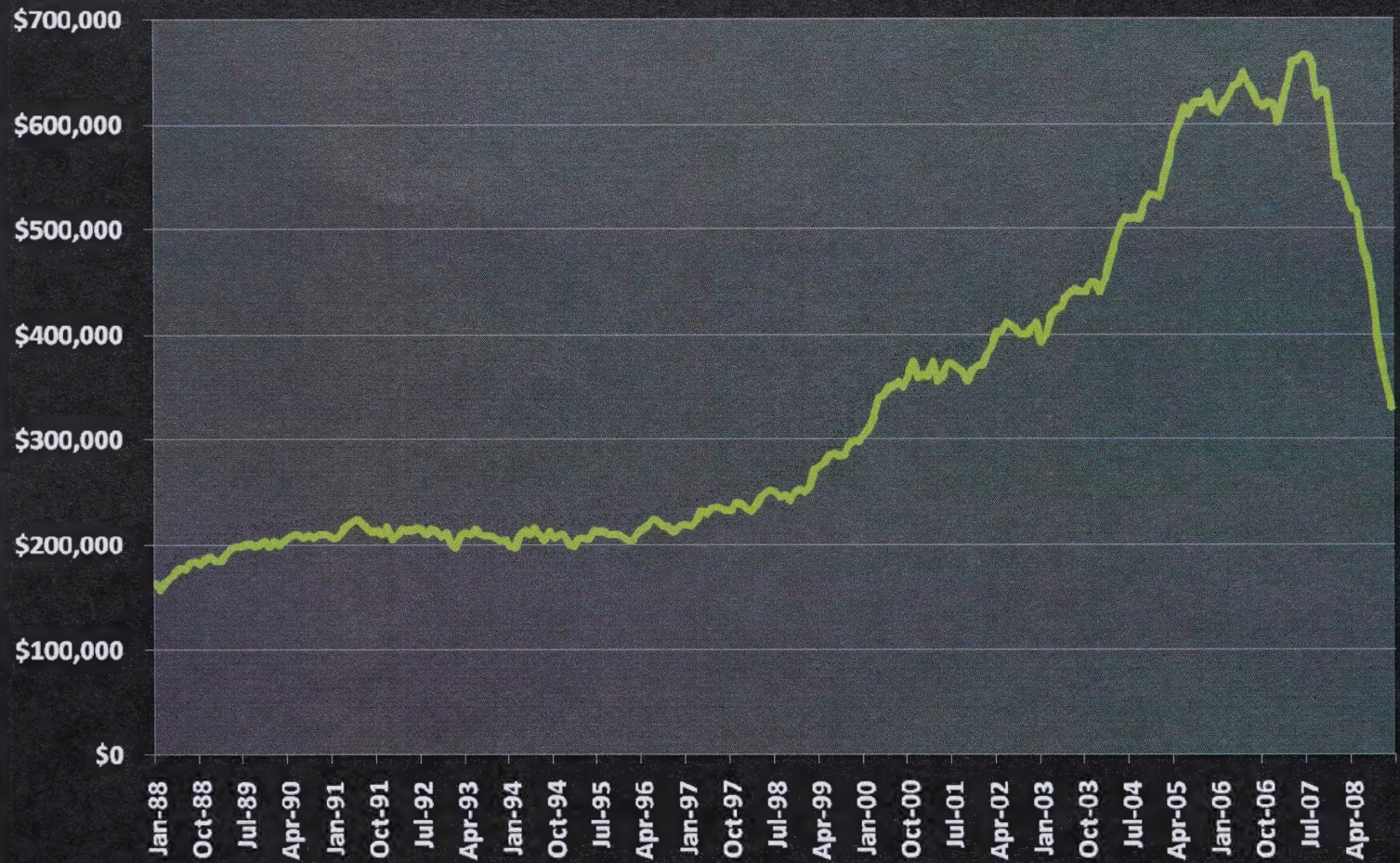
California monthly median sale price (all homes)



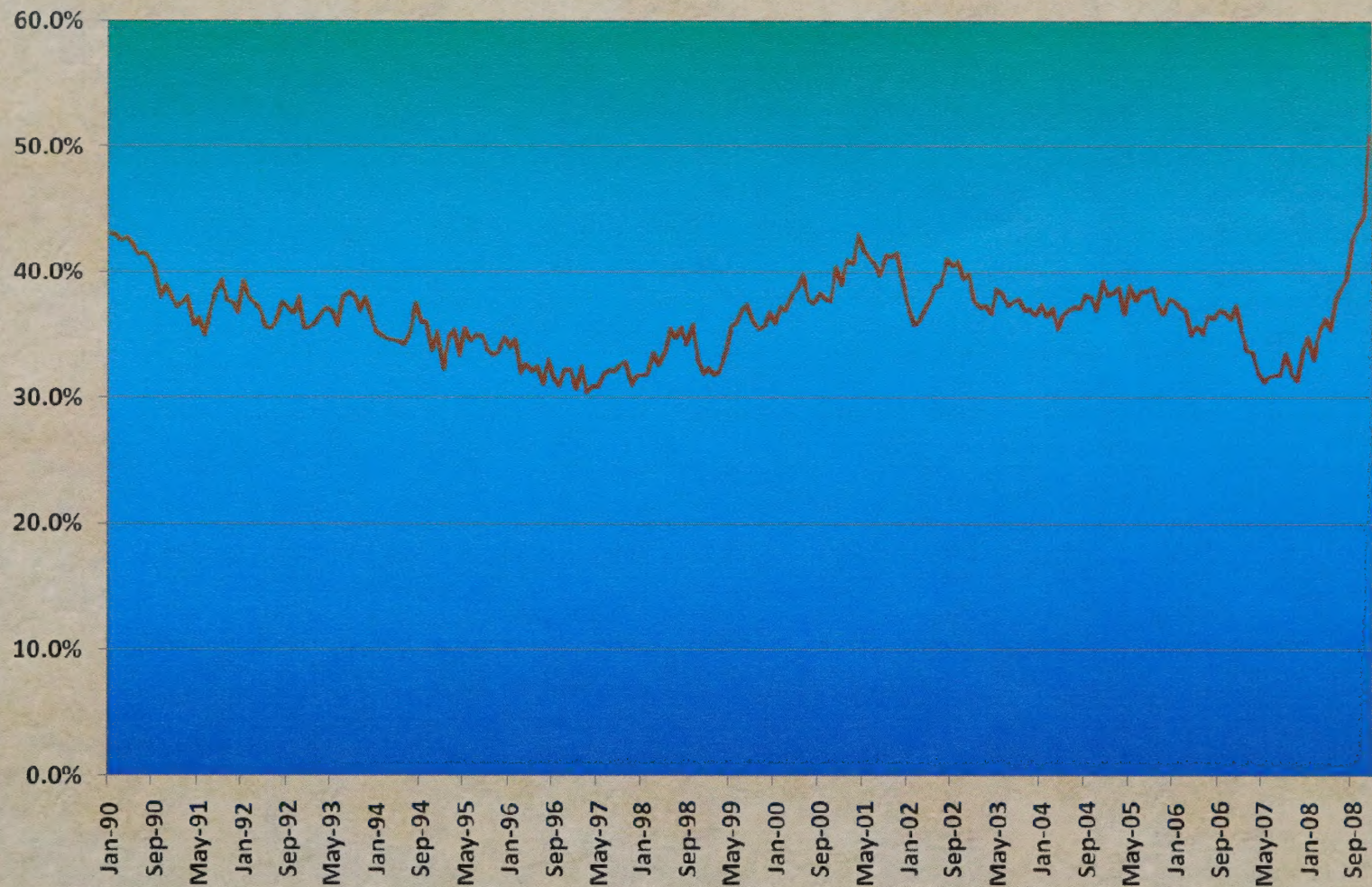
% California sales in inland counties



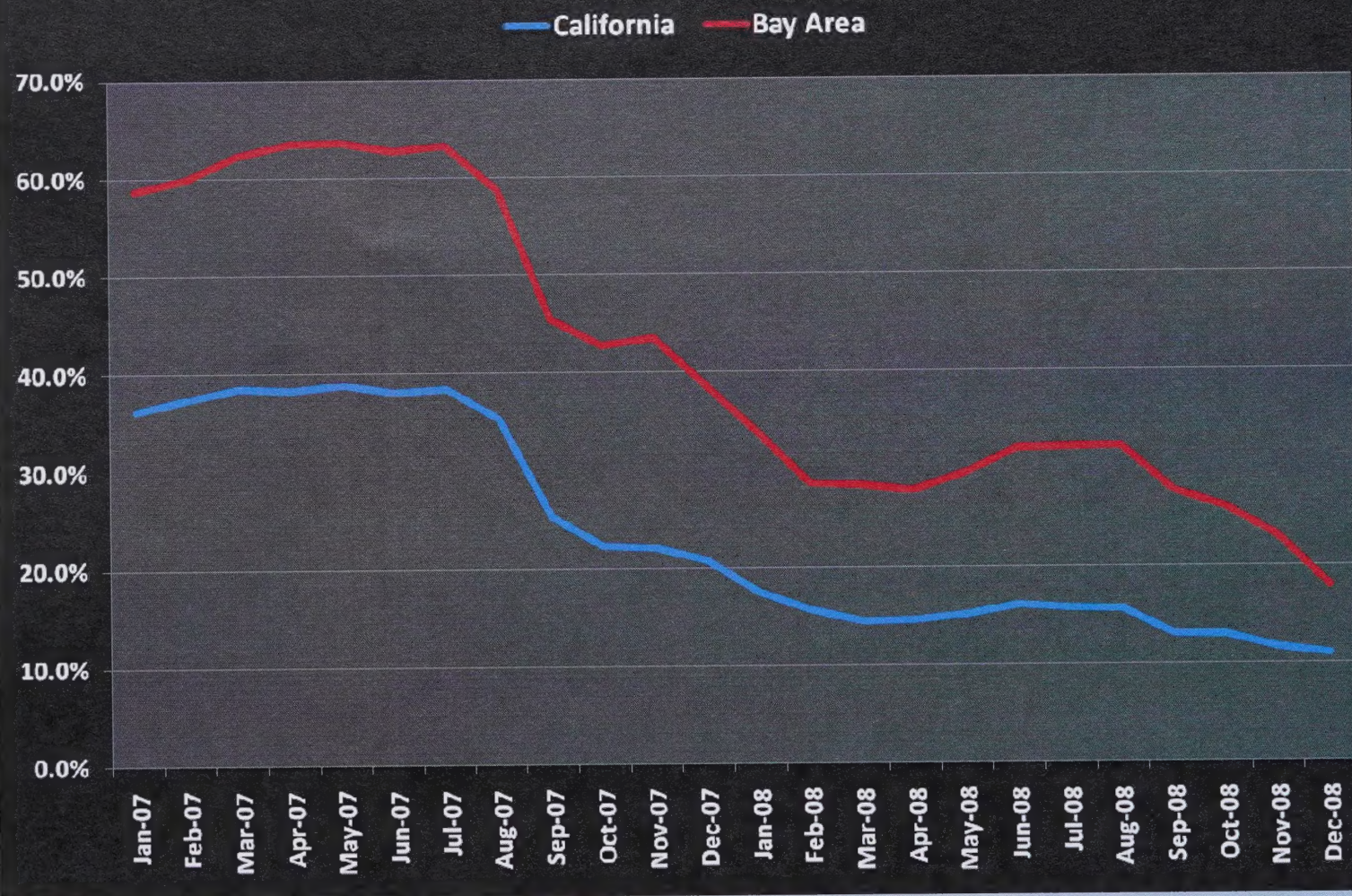
Bay Area monthly median sale price (all homes)



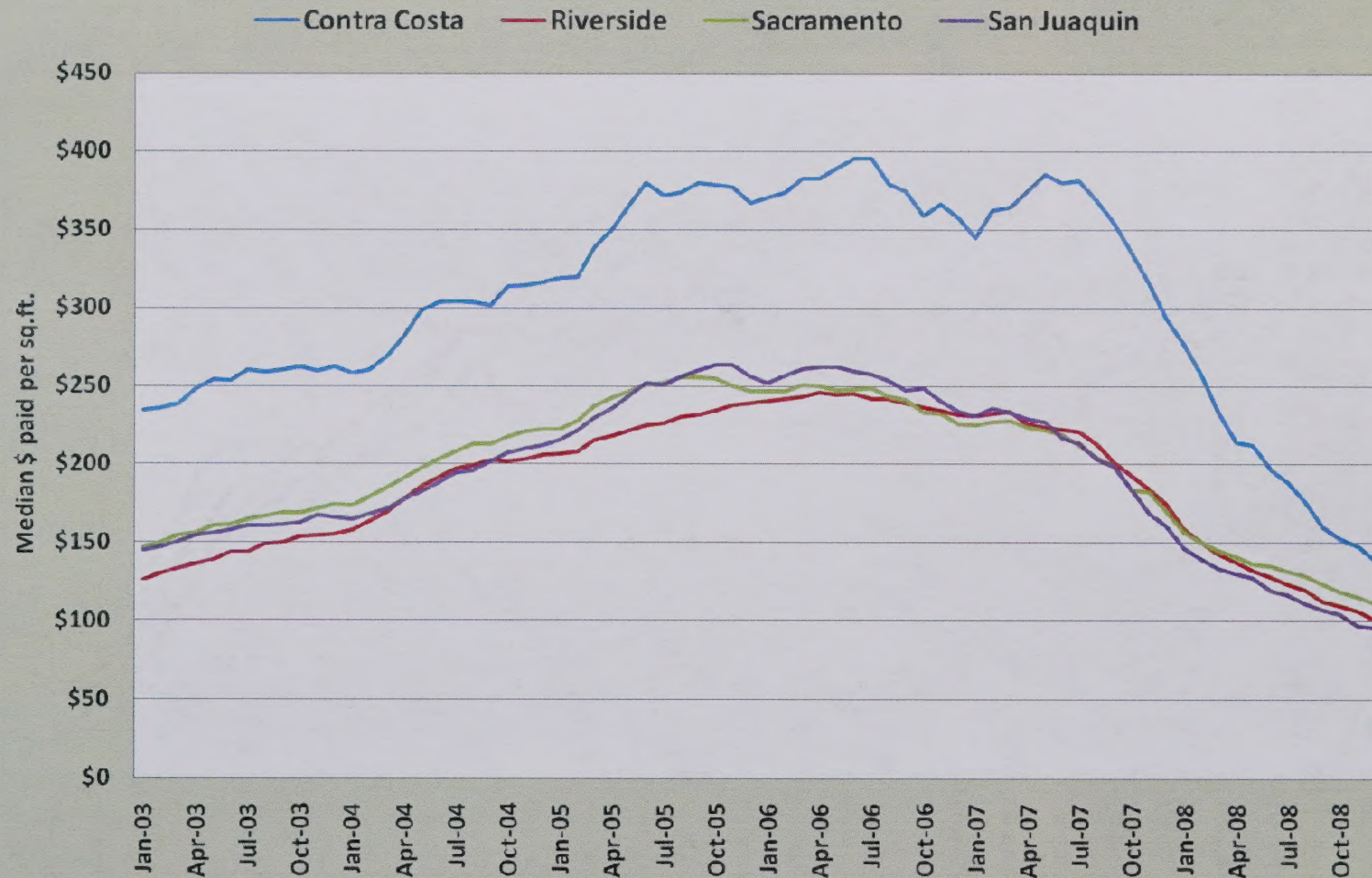
Bay Area inland counties' share of all sales



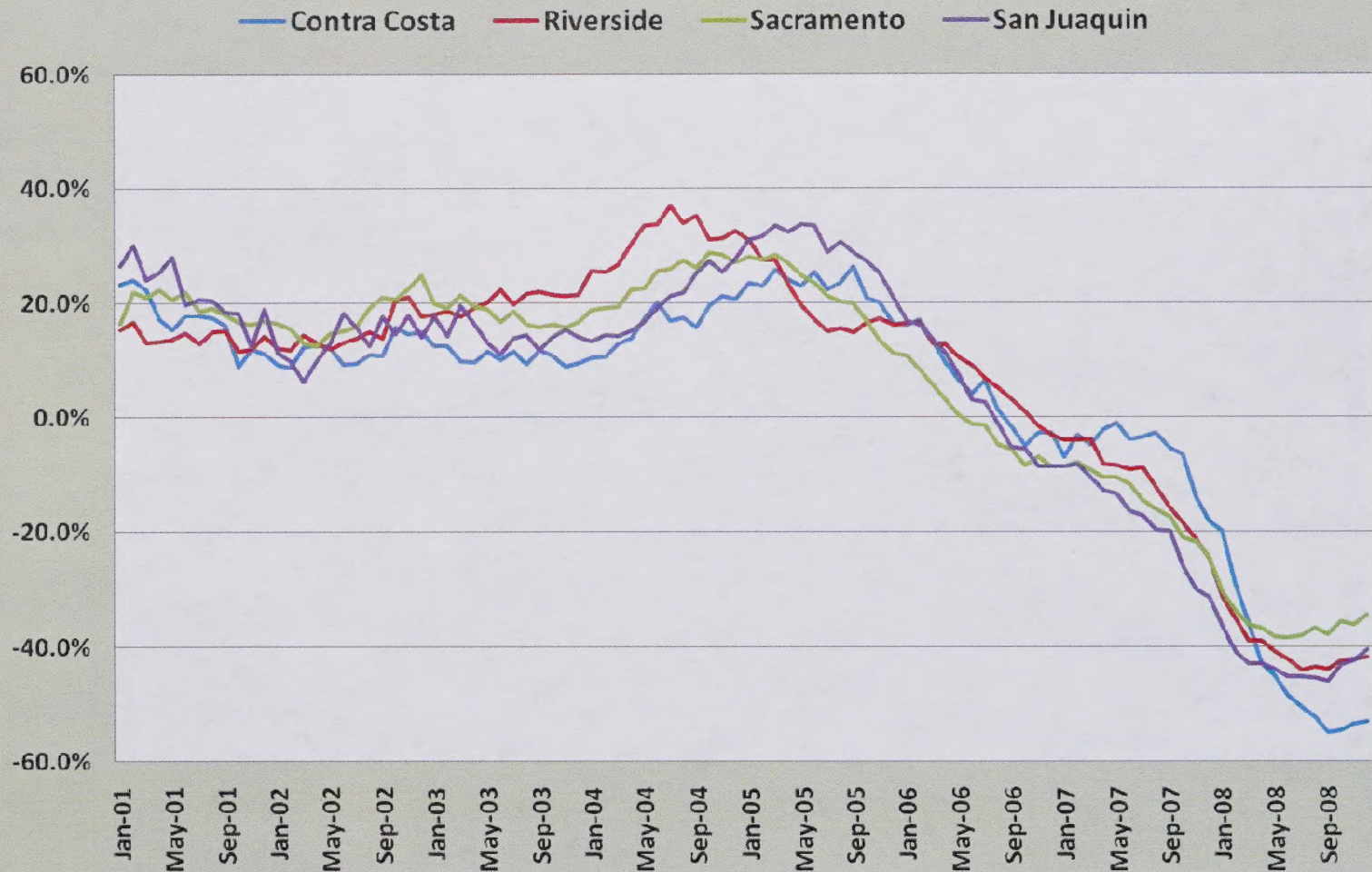
% of home purchases financed with a jumbo loan (>\$417K)



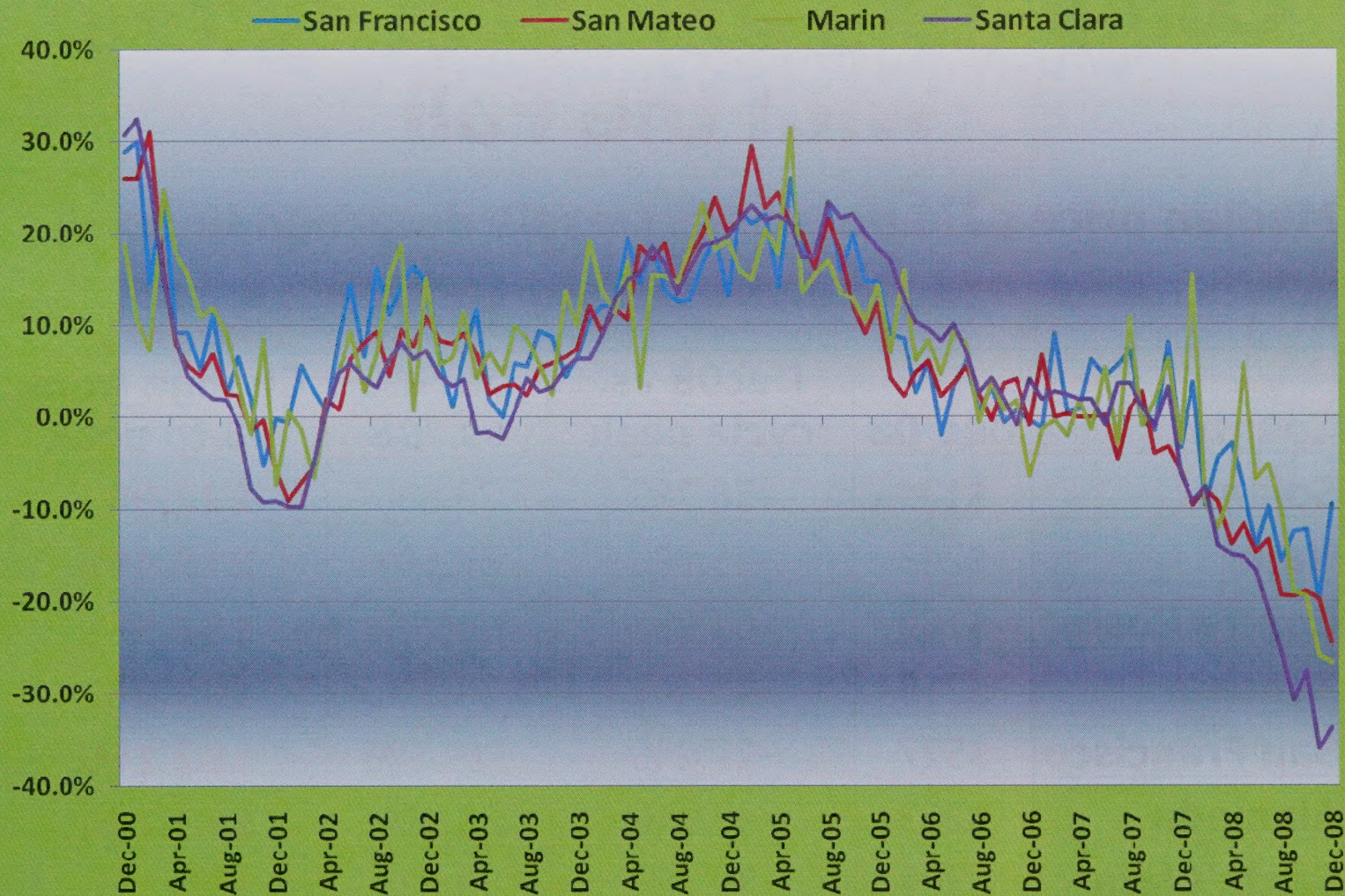
Hard hit: Inland counties with big median \$ sq.ft. declines



Inland cos: YOY change in median \$ paid per sq.ft.



Coastal counties: YOY change in median \$sq.ft.



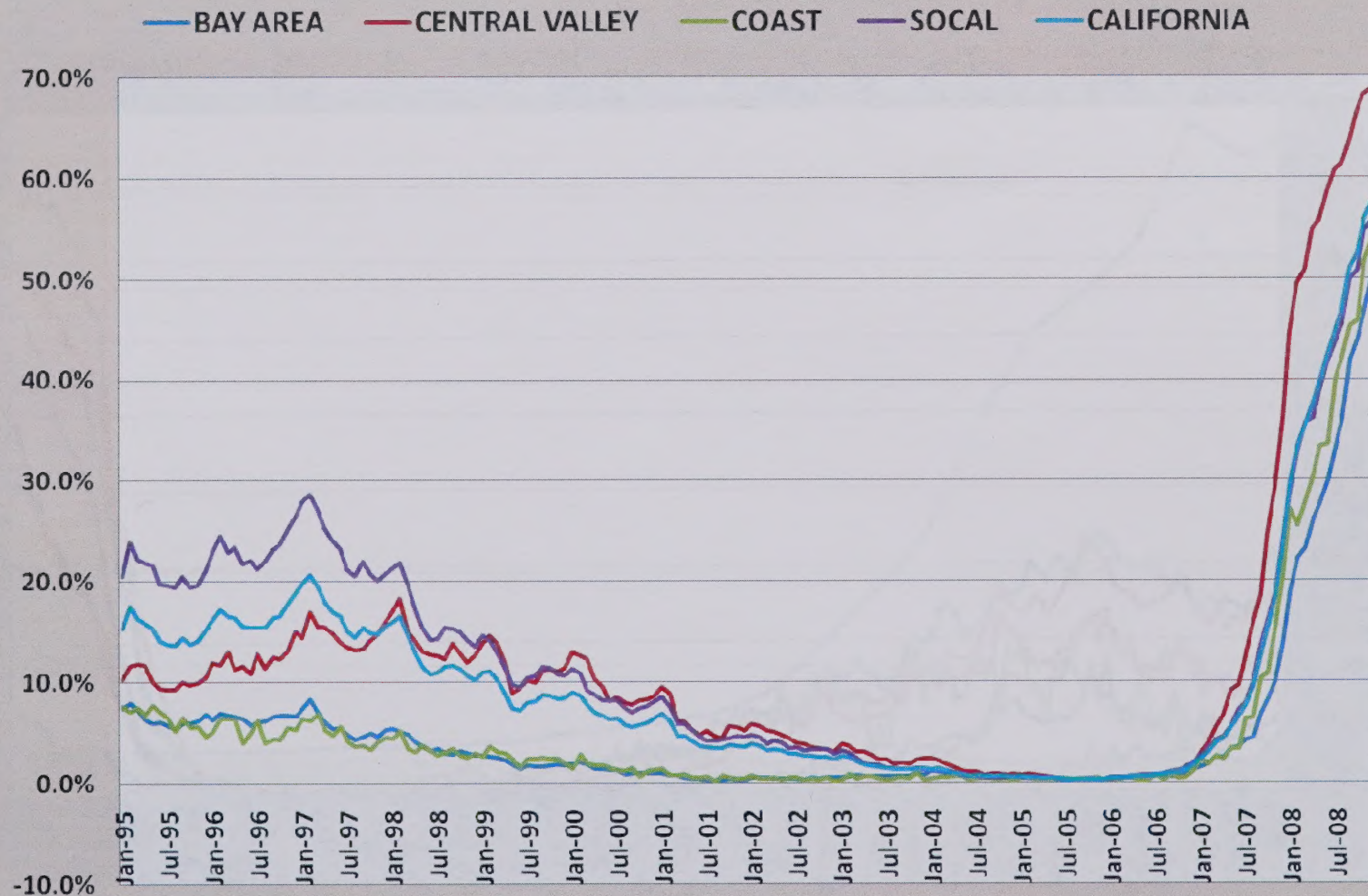
Comparing the Cycle Run-up with the Fall

Median price paid per sq. ft. (resale detached houses)

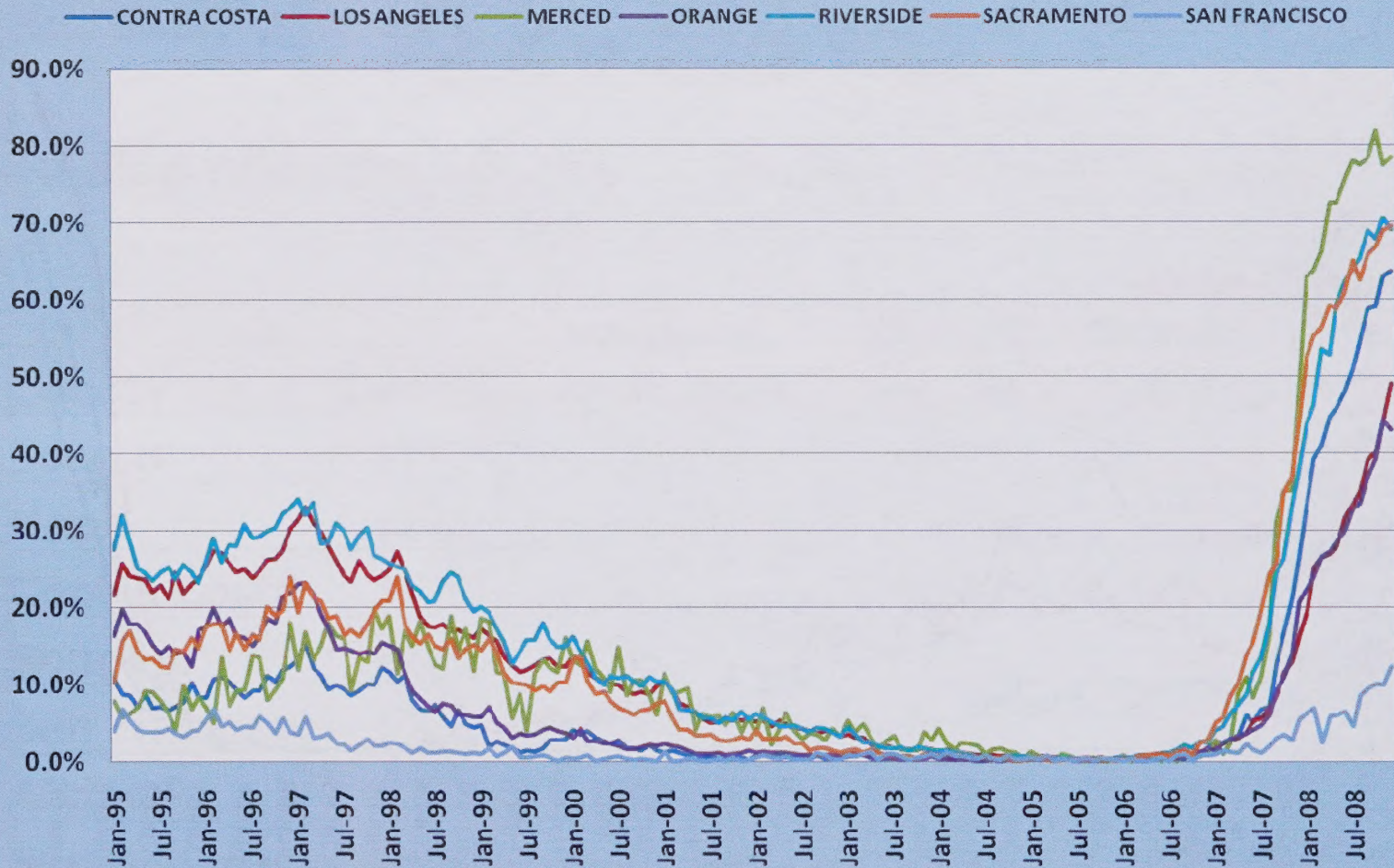
County	Dec-08	Dec08 vs. cycle peak	Dec-08 vs. '98	Ranked by
				Change from '98 to peak
Solano	\$134	-56.7%	39.8%	222.9%
Napa	\$243	-46.9%	67.6%	215.4%
Contra Costa	\$139	-64.9%	4.5%	197.5%
Sonoma	\$215	-45.4%	54.5%	183.0%
San Francisco	\$527	-22.2%	119.5%	182.1%
Alameda	\$263	-42.1%	58.1%	173.2%
Santa Clara	\$309	-39.7%	50.8%	150.1%
San Mateo	\$409	-33.5%	63.6%	146.2%



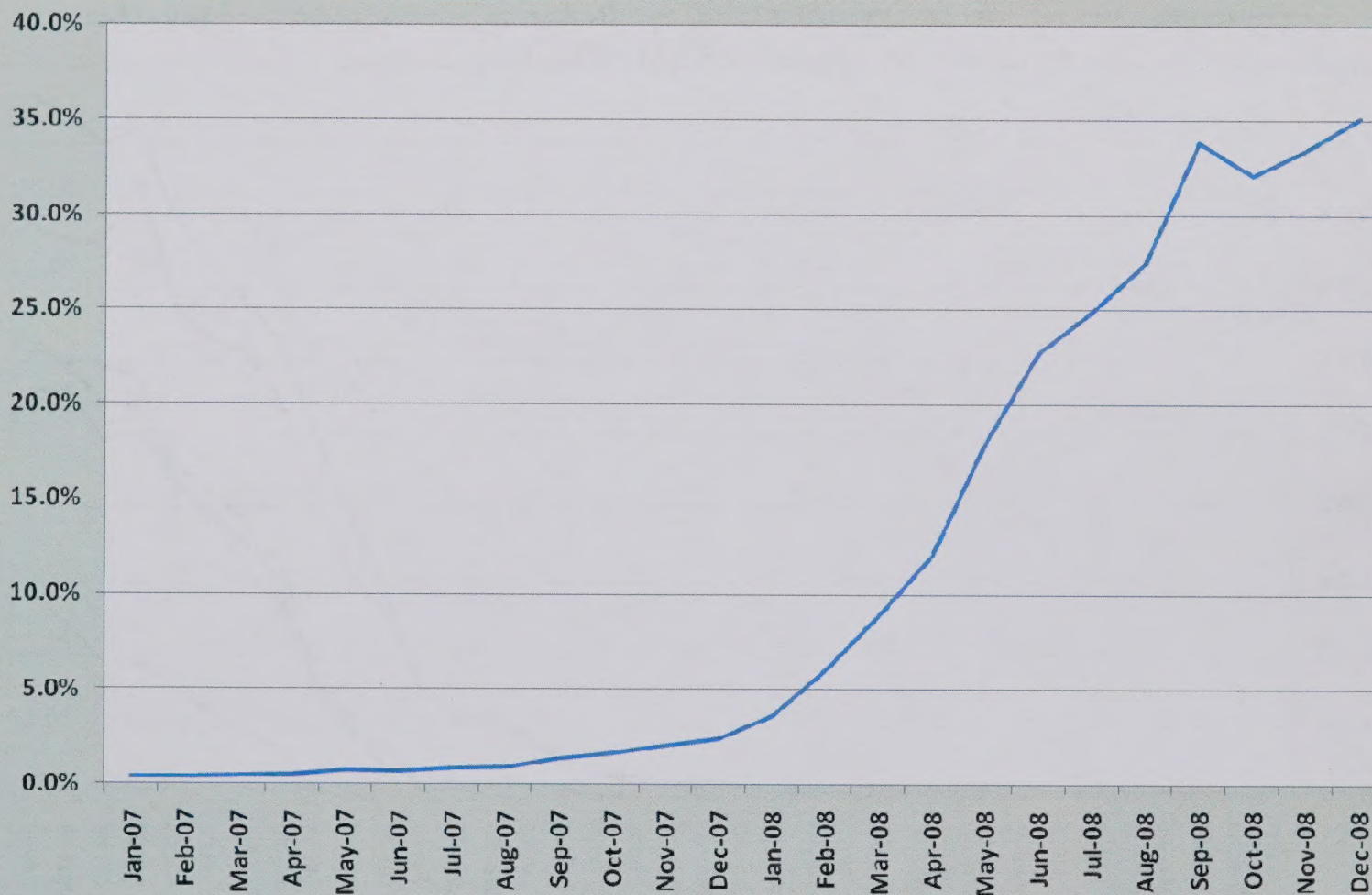
Foreclosure resales: % foreclosed on in prior 12 mos.



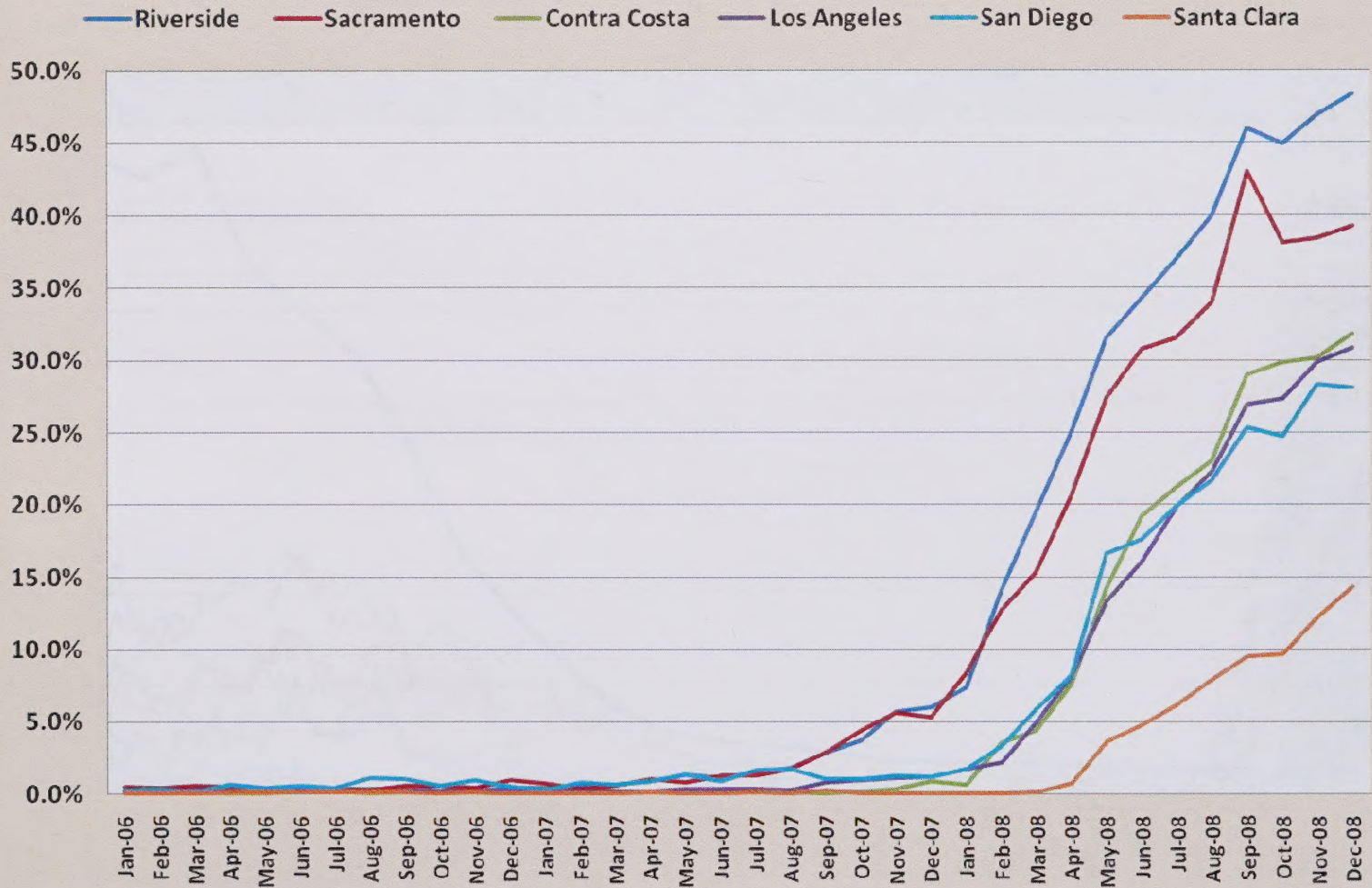
Foreclosure resales by county: % foreclosed on in prior 12 mos.



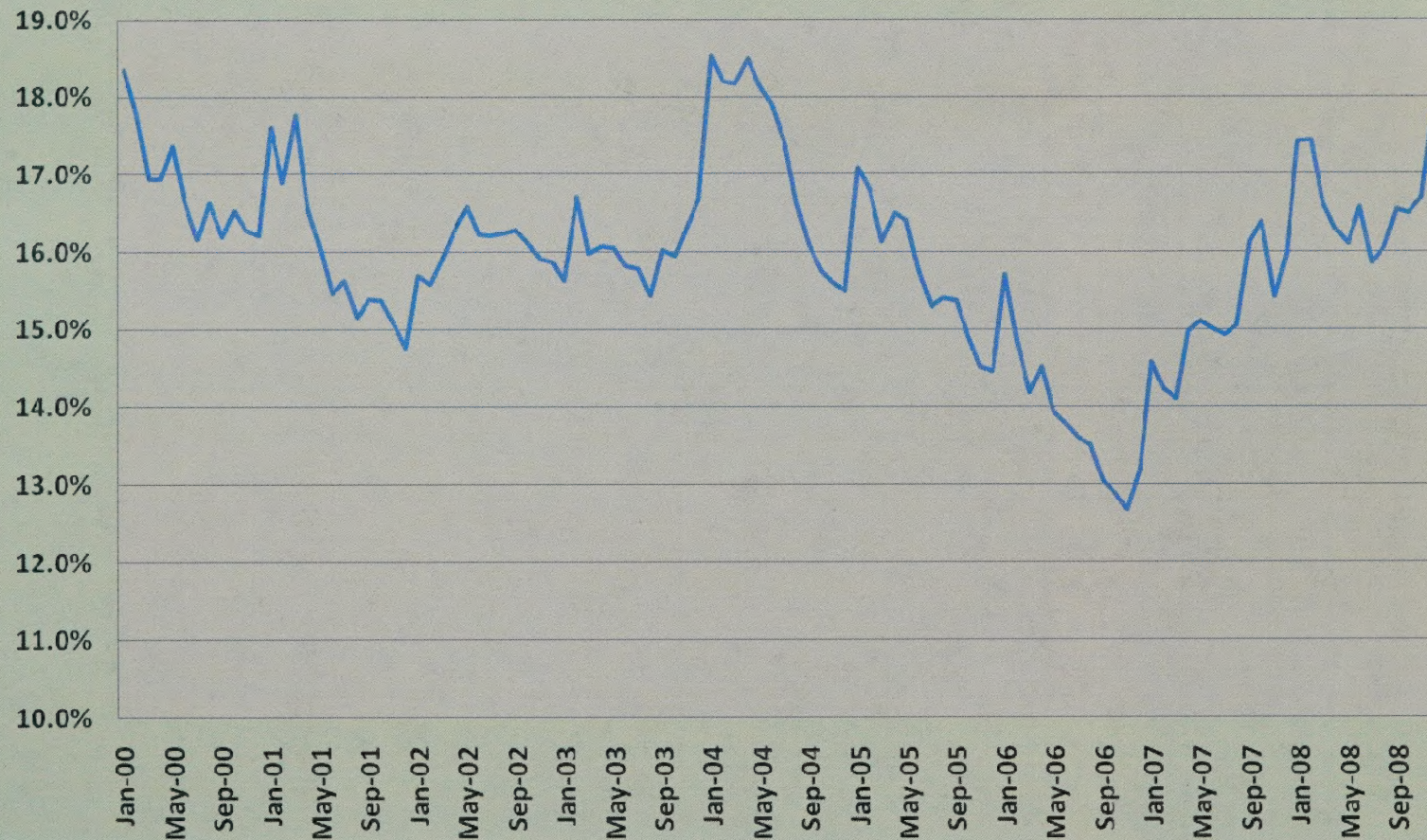
% Calif. purchase loans FHA-insured



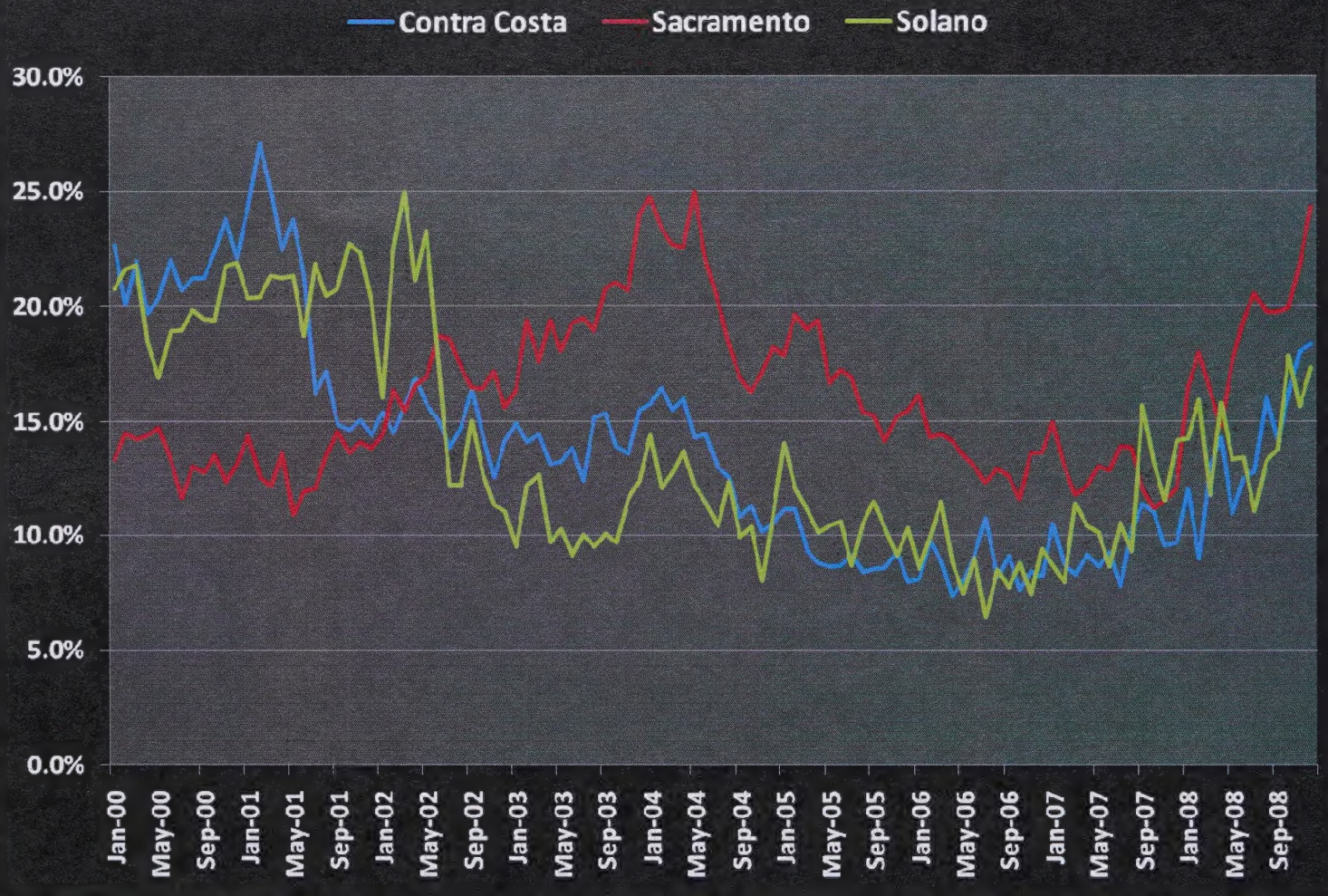
% purchase loans FHA insured by county



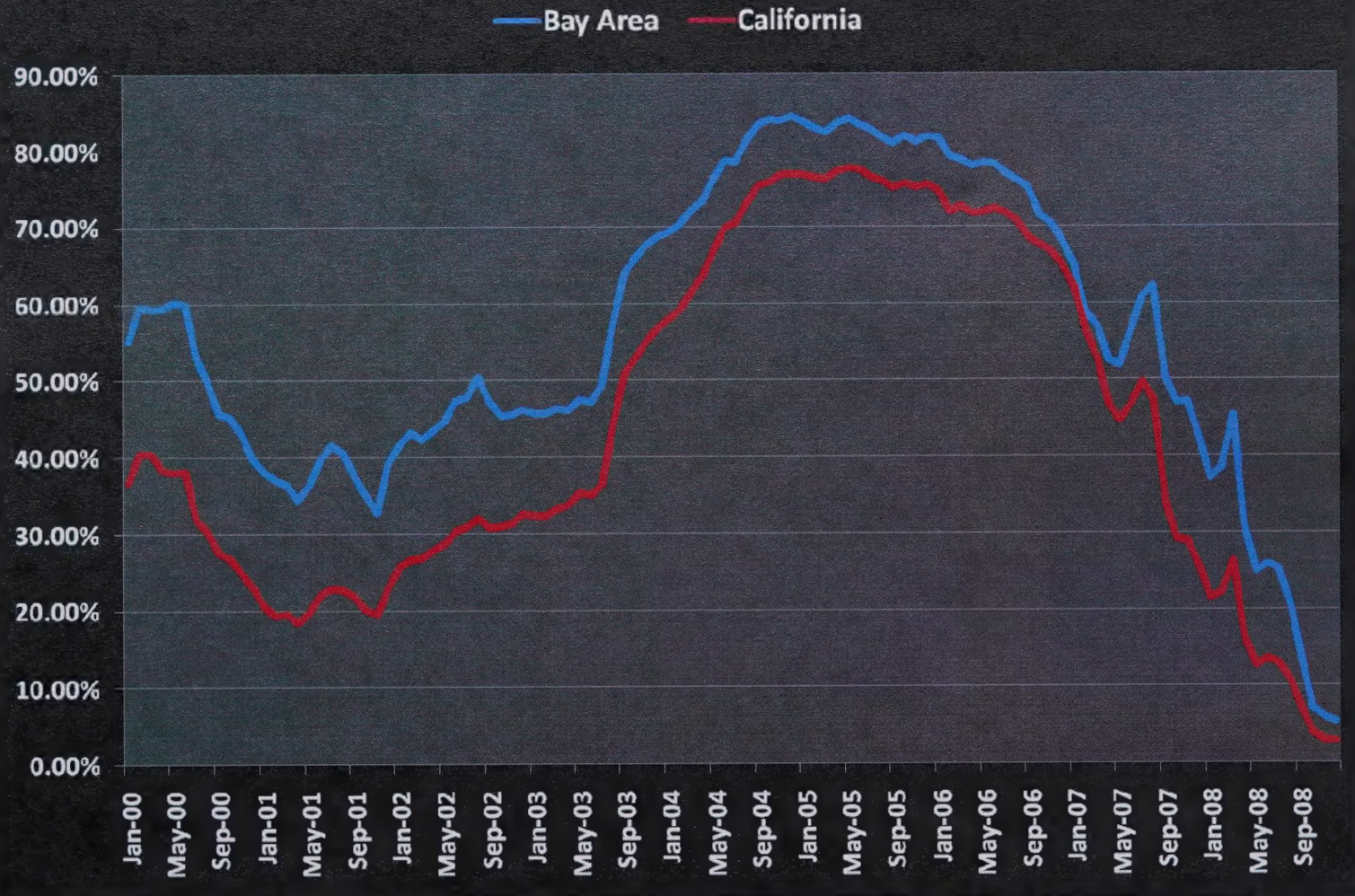
% California home sales to absentee buyers (investors/2nd homes)

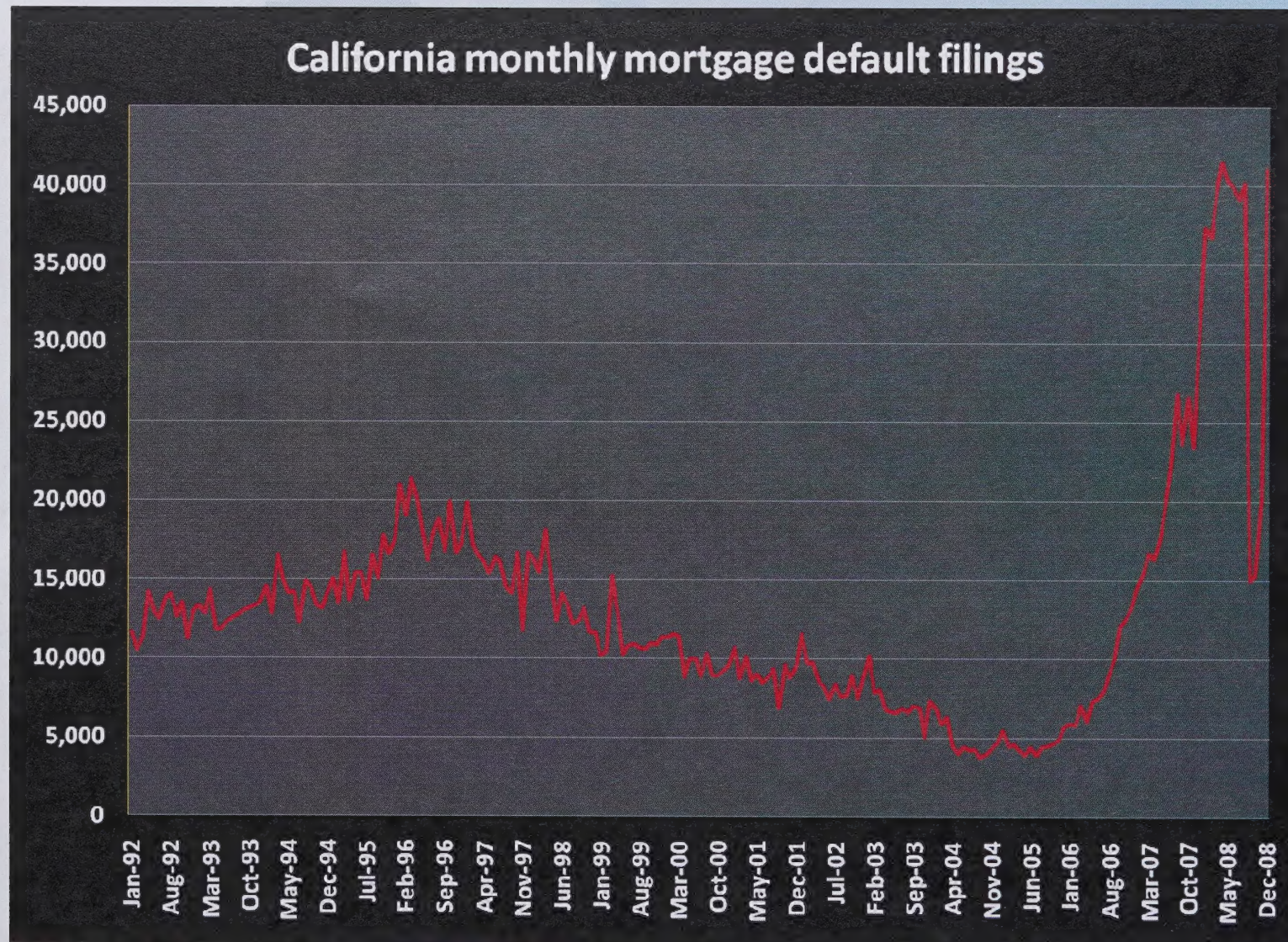


Inland markets: % homes purchased by absentee buyers



% of home purchase loans that were ARMs (adjustable rate)





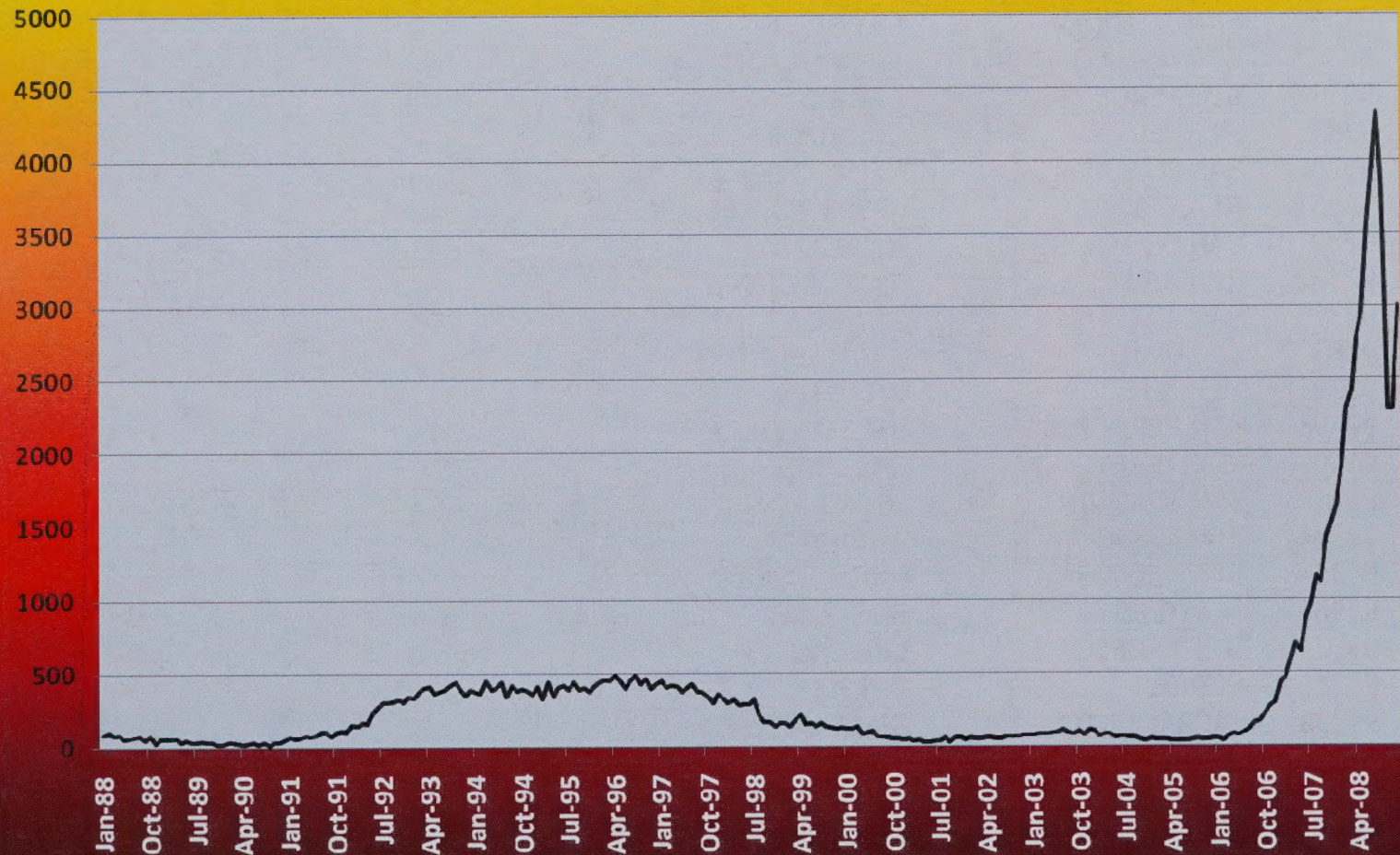
Bay Area monthly mortgage defaults



California quarterly foreclosures: Trustees deeds filed



Bay Area monthly foreclosures (trustees deeds)



California's Hardest-hit Zip Codes

zip	County	Community	# homes lost to foreclosure in 2008*	# foreclosures per 1,000 homes
95330	SAN JOAQUIN	LATHROP	728	166
95363	STANISLAUS	PATTERSON	963	152
92571	RIVERSIDE	PERRIS	1578	148
93635	MERCED	LOS BANOS	1444	139
95206	SAN JOAQUIN	STOCKTON	1891	129
92551	RIVERSIDE	MORENO VALLEY	903	125
92301	SAN BERNARDINO	ADELANTO	892	124
92582	RIVERSIDE	SAN JACINTO	479	122
95391	SAN JOAQUIN	TRACY	254	121
95832	SACRAMENTO	SACRAMENTO	309	118
95388	MERCED	WINTON	259	116
92394	SAN BERNARDINO	VICTORVILLE	907	115
93905	MONTEREY	SALINAS	796	112
95212	SAN JOAQUIN	STOCKTON	669	110
92274	RIVERSIDE	THERMAL	188	109
95358	STANISLAUS	MODESTO	683	108
93960	MONTEREY	SOLEDAD	308	107
93535	LOS ANGELES	LANCASTER	1760	106
95315	MERCED	DELHI	272	105
95838	SACRAMENTO	SACRAMENTO	905	103
95360	STANISLAUS	NEWMAN	302	103
92532	RIVERSIDE	LAKE ELSINORE	477	102
95823	SACRAMENTO	SACRAMENTO	1593	101
92555	RIVERSIDE	MORENO VALLEY	986	100
92553	RIVERSIDE	MORENO VALLEY	1390	100
Statewide average				36

*Dec08 was estimated

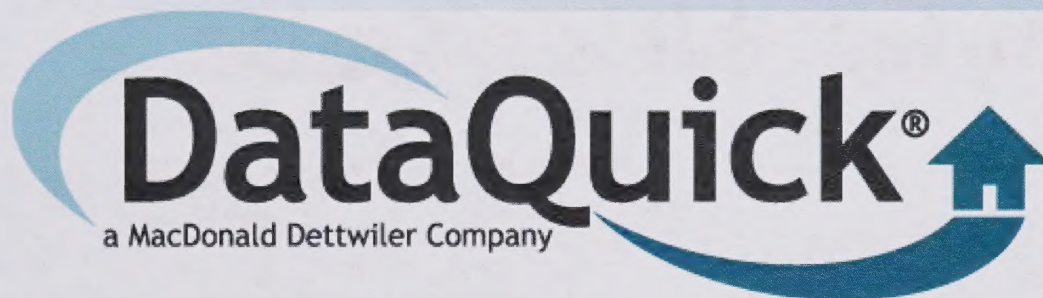


Bay Area's Hardest-hit Zip Codes

zip	County	Community	# homes lost to foreclosure in 2008*	# foreclosures per 1,000 homes
94531	CONTRA COSTA	ANTIOCH	1093	92
94801	CONTRA COSTA	RICHMOND	544	90
94565	CONTRA COSTA	PITTSBURG	1750	86
94509	CONTRA COSTA	ANTIOCH	1351	80
94589	SOLANO	VALLEJO	664	78
94561	CONTRA COSTA	OAKLEY	777	76
95407	SONOMA	SANTA ROSA	455	71
94585	SOLANO	SUISUN CITY	554	69
94806	CONTRA COSTA	SAN PABLO	857	67
95116	SANTA CLARA	SAN JOSE	439	66
95122	SANTA CLARA	SAN JOSE	576	65
94520	CONTRA COSTA	CONCORD	441	65
94503	NAPA	AMERICAN CANYON	286	63
94533	SOLANO	FAIRFIELD	1020	62
94590	SOLANO	VALLEJO	482	61
95111	SANTA CLARA	SAN JOSE	568	60
94513	CONTRA COSTA	BRENTWOOD2	924	57
94591	SOLANO	VALLEJO	898	52
94804	CONTRA COSTA	RICHMOND	516	51
95401	SONOMA	SANTA ROSA	398	48
95127	SANTA CLARA	SAN JOSE	571	43
94572	CONTRA COSTA	RODEO	98	43
94534	SOLANO	FAIRFIELD	491	42
95020	SANTA CLARA	GILROY	493	41
94547	CONTRA COSTA	HERCULES	320	39
Bay Area average				30

*Dec08 was estimated





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